

# WALLER LANSDEN DORTCH & DAVIS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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P. O. BOX 1035  
COLUMBIA, TN 38402-1035  
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EXECUTIVE SECRETARY

D Billye Sanders

(615) 252-2451

bsanders@wallerlaw.com

July 27, 1999

## Via Hand-Delivery

K. David Waddell  
Executive Director  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37219

Re: Application of NA Communications, Inc. for a Certificate of  
Convenience and Necessity - Docket No. 98-00597

Dear Mr. Waddell:

Enclosed you will find the original and thirteen copies of the Response  
to July 27, 1999 Data Requests of the TRA Staff and Directors.

Should you have any questions, please do not hesitate to contact me.

Sincerely,



D. Billye Sanders

DBS:lmb  
w/Enclosures

cc: Cathy J. Davis, President  
Katherine A. Rolph, Esq.

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REGULATORY AUTH.  
'99 JUL 27 PM 3 50  
EXECUTIVE SECRETARY

**NA Communications, Inc.**  
**Application for Certificate of Convenience and Necessity**  
**Docket No. 98-00597**

**Response to July 27, 1999 Data Requests of the**  
**TRA Staff and Directors**

1. Financial Statements of CFW Communications Company ("CFW").

Response: Please see the most recent 10-K, dated March 31, 1999, of CFW Communications Company attached as Exhibit 1. As indicated in CFW's consolidated balance sheets included in the attached 10-K report, CFW has total assets of \$155,024,666, and its current net worth is \$93,410,000. The consolidated balance sheets also reflect that CFW's 1998 operating revenues totaled \$66,686,104, and its 1998 net income was approximately \$8.5 million.

2. Identify and explain all changes in the management structure and operations of NA Communications, Inc. as a result of the change in ownership of NA Communications, including any changes in the managerial or technical abilities of NA Communications, Inc.

Response: The "Stock Purchase Agreement" ("SPA") stipulates that NetAccess, Inc. and its wholly owned subsidiary, NA Communications, Inc., will remain separate operating companies through the end of 2000. The date of 2000 was chosen as a basis for incentive payments. Initially, CFW is to make cash payments to the shareholders of NetAccess, Inc. for the remaining 90% of the stock that they are purchasing through the SPA. At the conclusion of 2000, additional incentive payments will be made based upon the year 2000 operations. Additionally, this agreement stipulates that the entities are to continue their current operating practices and capital budget. Cathy Davis will remain as President and Treasurer, and Michael Davis will continue as Vice President and Secretary of NA Communications. As previously discussed at the Pre-Hearing Conference, Mr. Cox serves no management role currently with NA Communications.

3. Will Jay Cox be involved in the management of NA Communications, Inc. as a result of the change in ownership of NetAccess, Inc.?

Response: No Mr. Cox will not be a manager of NA Communications as a result of the change in ownership of NetAccess, Inc., NA's parent. Mr. Cox will, however, continue to serve as Vice President of Sales and Marketing for NetAccess, Inc. NetAccess provides non-regulated internet services.

4. What will Jay Cox's share of the ownership of NA Communications, Inc. be as a result of the change in ownership of NetAccess, Inc.?

Response: Currently, all stock in NA Communications is owned by its parent, NetAccess, Inc. Mr. Cox owns approximately 20% of NetAccess, Inc. After the change in ownership, Mr. Cox will own 0 shares of stock in NetAccess. The cash payments referenced in our response to request #2 represent the only consideration being paid to Mr. Cox for his shares. No other notes or outstanding obligations will or have been issued.

5. Please provide any additional information provided for the benefit of the Directors and the staff of the TRA.

Response: Please find enclosed as Exhibit 2 the most recent annual report (1998) of CFW Communications Company. It is worth noting that on page 1 of the report it states that CFW is identified as the fortieth (40th) largest telephony company in the nation. As described in greater detail in CFW's annual report, CFW has been providing local exchange service in Virginia for over 102 years, has over 750 employees, has over 36,700 access lines in Virginia, and over 38,400 cellular and paging customers in Virginia.

Also included in the 10-K, attached as Exhibit 1, is the biographical information of the current directors of CFW, which begins on page 8. Several of the current directors will also be serving as the new directors of NetAccess, Inc. The new directors of NA Communications (and also of NetAccess, Inc.), as indicated in Ms. Davis' letter of July 20, 1999, will be: W. C. Catlett; D. R. Maccarelli; D. M. Persing; M. B. Money maker; J. S. Quarforth; Cathy Davis; and Michael Davis. Biographical information on Ms. Davis and Mr. Davis has previously been filed with the Authority. The biographical information of Mr. Quarforth is attached as Exhibit 3.

## LIST OF EXHIBITS

- EXHIBIT 1 - March 31, 1999 10-K of CFW Communications Company
- EXHIBIT 2 - 1998 Annual Report of CFW Communications Company
- EXHIBIT 3 - Biographical Information of J.S. Quarforth

## **EXHIBIT 1**

-----BEGIN PRIVACY-ENHANCED MESSAGE-----

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CONFORMED SUBMISSION TYPE: 10-K  
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COMPANY CONFORMED NAME: CFW COMMUNICATIONS CO  
CENTRAL INDEX KEY: 0000829676  
STANDARD INDUSTRIAL CLASSIFICATION: TELEPHONE COMMUNICATIONS (NO  
IRS NUMBER: 541443350  
STATE OF INCORPORATION: VA  
FISCAL YEAR END: 1231

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STREET 1: 401 SPRING LN PO BOX 1990  
STREET 2: STE 300  
CITY: WAYNESBORO  
STATE: VA  
ZIP: 22980  
BUSINESS PHONE: 7039463500

MAIL ADDRESS:  
STREET 1: P O BOX 1990  
CITY: WAYNESBORO  
STATE: VA  
ZIP: 22980

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For fiscal year ended December 31, 1998

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

## EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-16751

CFW COMMUNICATIONS COMPANY

-----  
(Exact name of registrant as specified in its charter)

Virginia

54-1443350

-----  
(State or other jurisdiction of  
incorporation or organization)  
P. O. Box 1990, Waynesboro, Virginia-----  
(I. R. S. employer  
identification number)  
22980-----  
(Address of principal executive offices)  
Registrant's telephone number, including area code-----  
(Zip Code)  
540-946-3500  
-----

## SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class

Name of Each Exchange on Which Registered

-----  
None-----  
None

## SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, no par value

-----  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES    X            NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

Aggregate market value of the voting stock held by non-affiliates of the registrant as of February 22, 1999; \$282,675,506. (In determining this figure, the registrant has assumed that all of its directors and executive officers are affiliates. Such assumption shall not be deemed conclusive for any other purpose. The aggregate market value has been computed based upon the average of the bid and asked prices as of February 22, 1999.)

&lt;PAGE&gt;

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class    Common Stock, no par value

-----  
Outstanding March 1, 1999 13,016,988 shares  
-----

DOCUMENTS INCORPORATED BY REFERENCE

Information from the following documents has been incorporated by reference in this report:

- Annual Report to Shareholders for year ended December 31, 1998  
PARTS I AND II
- Proxy Statement for 1999 Annual Meeting of Shareholders - PARTS I  
AND III

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CFW COMMUNICATIONS COMPANY

FORM 10-K

## PART I

### Item 1. BUSINESS

CFW Communications Company ("CFW" or the "Company") is a diversified telecommunications provider offering a broad range of integrated telecommunications products and services to business and residential customers in Virginia and West Virginia, through its wireline, wireless and other operating divisions. The Company's products and services include local telephone, long distance, personal communications services (PCS), cellular, paging, wireless and wireline cable television, directory assistance, competitive access, local internet access, and alarm monitoring and installation.

The Company's business strategy is to be a regional, integrated, full-service provider of voice, data and video communications products and services to customers within an expanding service area. The principal components of the Company's strategy include; (i) offering a full range of communications products and services; (ii) focusing on wireless communications, competitive local telephone service (CLEC) and internet access; (iii) continuing its tradition of delivering high quality service to its customers; and (iv) expanding its geographic presence throughout central and western Virginia, West Virginia and surrounding states.

The Company provides wireline services such as local exchange and telephone service to customers in the cities of Waynesboro, Clifton Forge and Covington, Virginia, and the surrounding counties, and maintains approximately 36,700 access lines in these service territories. The Company is a certified local exchange carrier in an eleven county area in central and western Virginia and, with interconnection agreements in place with three incumbent local telephone providers, the Company commenced providing competitive local telephone services to businesses in Charlottesville, Harrisonburg and Staunton, Virginia in late 1998 and, in 1999, plans to expand this service offering throughout central and western Virginia and in the Huntington and Charleston, WV communities.

In addition to its local telephone operations, the Company owns and operates over 450 miles of fiber optic cable in western and central Virginia. This fiber is connected and is a part of a fiber network managed by ValleyNet, in which the Company is a partner, using state-of-the-art electronics, thus establishing a regional backbone for the rapid deployment of broadband services beyond traditional franchise boundaries. During 1997 ValleyNet connected its fiber network to Carolina FiberNet. In 1998, the ValleyNet network was expanded to connect to the AEP Communications network. This contiguous network serves ten states and represents 4,500 miles of fiber cable. CFW also leases



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capacity on this network to long distance carriers and provides private network facilities and local internet access. Continued expansion and enhancement of the network infrastructure will facilitate the Company's ability to further control its network operating costs as it introduces CLEC and internet services and increases its PCS customer base throughout the region. Accordingly, the Company plans to add 500 miles of fiber in 1999 through a joint fiber build.

The Company's internet business services nearly 8,000 customers in most of its Virginia markets and in the Huntington and Charleston markets of West Virginia. The Company plans to expand this service to its' remaining Virginia markets of Danville and Martinsville, VA and to Morgantown, Fairmont and Clarksburg, WV in 1999.

The Company purchased the Alleghany County wireline cable system from Sammons Communications Company, Inc. in mid year 1995 and now operates a traditional coaxial cable system and services 7,200 customers in Alleghany County, Virginia. During 1996, the Company completed the rebuild and expansion of this wireline system to a state-of-the-art hybrid fiber coaxial (HFC) network with 750 MHz of capacity. This upgrade provides better signal quality, expands the number of channels and includes additional premium channels. This HFC network provides the infrastructure to support high-speed modems for service such as Internet and provides the Company a platform to support voice, data and video over a single wireline network.

The Company also currently provides wireless communications products and services such as cellular, personal communication services, paging and cable. The Company owns approximately 84% of, and is the general partner in, a limited partnership that provides cellular service in Virginia RSA6, a cellular geographic area in Western Virginia covering a population of approximately 200,000 and 75 miles of interstate highway. The Company also is a 22% limited partner in the Virginia RSA5 partnership providing cellular service in the region immediately south of RSA6.

The Company has a 21% common ownership interest in Virginia PCS Alliance, L.C. (VA Alliance), a provider of PCS throughout central and western Virginia. The Company also has a 45% common ownership interest in the West Virginia PCS Alliance, L.C. (WV Alliance), an owner of PCS radio spectrum licenses for most of West Virginia and parts of eastern Kentucky, southwestern Virginia and eastern Ohio that commenced providing PCS services in Charleston and Huntington in late 1998. Additional information regarding these PCS investments is included in Note 3 to the Company's Consolidated Financial Statements as found on pages 22 and 23 of the Annual Report of CFW to its Shareholders for the year ended December 31, 1998 and is incorporated herein by reference.

The Company owns and operates wireless cable systems in the Charlottesville, Shenandoah Valley and Richmond, Virginia markets. These systems currently provide wireless cable service to approximately 12,000 customers. The

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CFW COMMUNICATIONS COMPANY

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Company provides high-speed internet service in the Charlottesville market which utilizes the wireless cable spectrum. The Company expects to launch similar services in its remaining wireless cable markets during 1999.

CFW provides operator based directory information services for AT&T customers requesting phone numbers in the mid-Atlantic states. The Company also provides directory services to its PCS customers and GTE wireless customers in Virginia and Pennsylvania. The Company currently handles more than 220,000 requests per business day and provides employment for approximately 450 directory assistance personnel. The contract with AT&T commenced on December 1, 1994 and has an initial term of five years. During 1998 the Company commenced providing national directory assistance services to a new customer and also invested in a national database provider. The Company has two operational calling centers dedicated to these operations. During 1998 the Company purchased a historically significant building in downtown Winchester, Virginia which is being renovated into a third calling center. This additional center can accommodate approximately 110 directory assistance operator personnel. This facility provides additional capacity and can be used to provide directory assistance for other telecommunication companies, call completion and other operator services. It is anticipated that this center will be on-line in the second quarter of 1999.

The Company provides other communications services such as alarm installation and monitoring, billing and collection services to long distance carriers within the Company's local telephone exchange, and a regional telephone directory that is used by both its customers and customers in neighboring local exchanges.

The percentage of total sales contributed by each class of service is as follows:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	1998	1997
	----	----
<S>	<C>	<C>
Wireline communications	56.4%	58.4
Wireless communications	19.8%	19.9
Directory assistance	19.4%	17.9
Other communications services	4.4%	3.8

&lt;/TABLE&gt;

Construction materials and equipment are furnished from dependable suppliers. Delivery of materials and equipment is being made on normal schedules. Programs have been initiated by the registrant to conserve fuel and energy. Regulations published by the Federal Energy Office give high priority to telephone companies in the allocation of fuel in the event of a shortage.

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CFW Telephone Inc., a wholly-owned subsidiary, holds a Certificate of Public Convenience and Necessity granted by the State Corporation Commission of Virginia to provide telephone services in its certificated area. CFW Telephone, Inc. also holds franchises granted by the cities of Clifton Forge, Covington and Waynesboro which expire in 2021 and the town of Iron Gate which expires in 2024. These franchises grant CFW Telephone Inc. the right to place its poles and wires in the respective jurisdictions. Historically, CFW Telephone Inc. has not had significant competition from other providers over its core services. However, due to the Telecommunications Act of 1996 (discussed further below) and due to wireless technological advances, the Company may be subject to greater direct competitive forces in the future.

CFW Network Inc., a wholly-owned subsidiary, operates a fiber optic network which is unique to the area it serves. It holds a Certificate of Public Convenience and Necessity to provide interexchange services anywhere within the Commonwealth of Virginia and in 1996 was granted a Certificate of Public Convenience and Necessity to provide CLEC services in all or parts of the following Virginia counties: Albemarle, Amherst, Augusta, Bedford, Campbell, Frederick, Nelson, Roanoke, Rockbridge, Rockingham, and Shenandoah, and in the following Virginia cities: Roanoke, Lynchburg, Salem, Charlottesville, Harrisonburg, Bedford, Lexington, Staunton, Winchester, and Buena Vista. The Company will compete with other local telephone companies. With respect to its carrier services business, competition may occur in the future in the event other service providers build network facilities.

CFW Cable of Virginia Inc., a wholly-owned subsidiary, provides coaxial cable service in primarily the same franchised area as CFW Telephone Inc. provides local telephone service in the Clifton Forge and Covington area. Over-the-air broadcasting, direct broadcast satellite service and other satellite-based services may compete with the Company's wireline cable system.

CFW Wireless Inc., a wholly-owned subsidiary, provides analog cellular and digital PCS services in Virginia RSA6. CFW Wireless competes with another cellular provider in Virginia RSA6 and also with PCS providers which offer personal communication services (PCS). In 1998, the Company initiated filings with the state of West Virginia to obtain certifications necessary to provide CLEC services similar to those granted to CFW Network Inc. for our Virginia CLEC offering. Approval of these certificates in West Virginia was granted in January 1999. Additionally, the Company obtained certification to provide interexchange telecommunications resale services. This certification allows the Company to roll out our long distance services in West Virginia.

The Virginia PCS Alliance offers PCS, a new 100% digital wireless technology, throughout central and western Virginia. The West Virginia Alliance commenced providing PCS services in 1998 in Charleston and Huntington, West

Virginia and their surrounding communities. PCS provides higher voice quality, longer battery life, text messaging and more enhanced features than cellular. PCS will initially compete with local telephone and cellular providers through fixed wireline replacement and mobility services.

CFW Cable Inc., a wholly-owned subsidiary, has FCC licenses and lease arrangements with FCC licensees to provide wireless cable service in the Shenandoah Valley, Charlottesville, Richmond, Lynchburg, Winchester, Virginia/Martinsburg, West Virginia markets. Conventional cable television service and over-the-air-broadcasting, direct broadcast satellite service and other satellite-based services also may compete with the Company's wireless cable television operations.

Financial information about industry segments required by this item is incorporated herein by reference to Note 2 of the Notes to Consolidated Financial Statements found on pages 21 and 22 in the Annual Report of CFW Communications Company to its Shareholders for the year ended December 31, 1998.

In early 1996, Congress passed the Telecommunications Act of 1996, aimed at increasing competition in telecommunications services such as local telephone, cable and long distance. The Company has developed a strategic plan to capitalize on these opportunities and, as previously stated, is now certified by the State Corporation Commission to provide local telephone services throughout the central and western portions of Virginia and West Virginia.

Seasonal effect on the business is not material, however directory assistance calling volume and roaming traffic is typically higher in the summer months. No extended payment terms are made to customers. Orders for installation of services are being filled on a current basis. No material part of the business is done with the government. Research and development is performed by the registrant's suppliers. For the years ended December 31, 1998, 1997 and 1996, AT&T accounted for 28%, 34% and 24%, respectively, of the registrant's consolidated revenues. These revenues primarily consisted of carrier access charges for long distance services, billing and collection services and directory assistance.

The Company believes that it is in compliance with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. The Company does not anticipate any material effect on capital expenditures for environmental control facilities at any time in the future in order to maintain its compliance.

The Company employs 748 regular full-time and part-time persons.

OF 1995

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The Company wishes to caution readers that these forward-looking statements and any other forward-looking statements made by the Company are based on a number of assumptions, estimates and projections including but not limited to, continuation of economic growth and demand for wireless and wireline communications services; continuation of current level of services for certain material customers; reform initiatives being considered by the FCC being relatively revenue neutral; significant competition in the Company's telephone service area not emerging in 1999; the impact on capital requirements and earnings from new business opportunities and expansion into new markets and anticipated competitive activity not being greater than anticipated; and the achievement of build-out, operational, capital, financing and marketing plans relating to deployment of PCS services. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that any significant deviations from these assumptions could cause actual results to differ materially from those in the above and other forward-looking statements. Forward-looking statements included herein are as of the date hereof and the Company undertakes no obligation to revise or update such statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

&lt;TABLE&gt;

## EXECUTIVE OFFICERS OF THE COMPANY

&lt;CAPTION&gt;

Name	Office
<S>	<C>
J. W. Brownlee	Vice President- Virginia Operati
W. C. Catlett	Vice President- Strategy and Bus
D. E. Lowe	President- West Virginia Operati
D. R. Maccarelli	Senior Vice President- Engineeri
M. B. Moneymaker	Vice President and Chief Financi
	and Secretary
D. M. Persing	Vice President- Human Resources
J. S. Quarforth	President and Chief Executive Of
C. A. Rosberg	Senior Vice President and Chief
W. M. Zirkle	President- Virginia Operations

&lt;/TABLE&gt;

Information for Mr. Quarforth and Mr. Rosberg is included under the heading "Election of Directors" in the Proxy Statement of the registrant for its 1998 Annual Meeting of Shareholders and is incorporated herein by reference.

Mr. Brownlee became Vice President and Chief Operating Officer - Wireline in January 1997 after serving as Vice President - Telephone Operations since January 1989. Previously he served as Outside Plant Engineering and Construction Manager from October 1978 until January 1989.

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CFW COMMUNICATIONS COMPANY

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Mr. Catlett became Vice President - Strategy and Business Development in January 1997 after serving as Director of Business Development since January 1994. Previously, he

served as Planning and Regulatory Manager from April 1992 until January 1994 and Revenue Requirements Manager from May 1990 until April 1992.

Mr. Lowe became President of West Virginia operations in January 1998. Previously, he was employed by Charles Ryan Associates, a public relations and advertising firm, from January 1997 until December 1997. From August 1995 until December 1996 he was self-employed as an independent consultant. During a period of this time, he served as President of Glade Springs LLC, a recreational resort and residential development company. From 1963 through August 1995, Mr. Lowe was employed by Bell Atlantic, the last 2 1/2 years of which he served as President and Chief Executive Officer for Bell Atlantic - West Virginia. He held other executive level positions in operations, advertising, corporate relations, external affairs, and strategic planning during his 32-year telecommunications career at Bell Atlantic.

Mr. Maccarelli became Senior Vice President in January 1994 after serving as Vice President - Network Services since January 1993. Previously, he served in the following capacities for Bell Atlantic Corporation: as Director of Fast Packet Services from April 1992 until December 1992; as Director of Business Development from January 1992 until April 1992; and as Director of Network Planning from December 1988 until January 1992.

Mr. Moneymaker became Vice President - Finance in October 1995. Previously he was a Senior Manager for Ernst and Young from October 1989 until October 1995.

Ms. Persing became Vice President- Human Resources in May 1998. From December 1995 to March 1998, she was employed by PrimeCo Personal Communications as Vice President of Customer Care. From June 1974 to January 1994, she held numerous leadership positions with AT&T. These positions encompassed customer care, directory assistance, human resources, network engineering, software development and large project management. From August 1994 to November 1995, she served as operations manager for CFW's directory assistance operation.

Mr. Zirkle became Vice President and Chief Operating Officer - Wireless in February 1996 and became an executive officer of the Company effective April 1997. Previously he founded and was a principal, since 1990, in Essex Communications Partners, Inc., a telecommunications management and consulting firm serving the wireless industry.

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CFW COMMUNICATIONS COMPANY

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Item 2. PROPERTIES

The Company owns its four exchange buildings and all equipment therein in the cities of Clifton Forge, Covington and Waynesboro and the rural community of Potts Creek. The Company also owns a plant service center building located approximately one mile from the Waynesboro and Covington exchange buildings. The Company owns its corporate headquarters building located in Waynesboro, Virginia. Additionally, the Company owns two

15,700 square feet directory service centers, one located in Clifton Forge, Virginia and the other located in Waynesboro, Virginia. The Company owns a 14,400 square foot building located adjacent to its directory service center in Waynesboro, Virginia for purposes of housing its main PCS operations. In 1998, the Company completed construction of a 31,000 square foot building located adjacent to its main PCS operations building for purposes of housing its integrated customer care facilities. In addition, in 1998 the Company completed construction of a 6,400 square foot retail store located in Waynesboro, Virginia. All buildings are of masonry construction and are in good condition. As discussed earlier, the Company has acquired a historically significant, 33,000 square foot building that was originally constructed in 1847. This property is located in Winchester, Virginia. Approximately 17,500 square feet is currently being rehabilitated to accommodate a third directory assistance center and an additional 500 square feet is being rehabilitated as a retail store in the City's historic pedestrian mall.

Item 3. LEGAL PROCEEDINGS

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the quarter ending December 31, 1998.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock of the Company is listed in the NASDAQ National Market. The number of registered shareholders totaled 2,998 as of December 31, 1998, an increase of 114 since December 31, 1997. The range of stock prices for the two most recent fiscal years is included in a table under the heading "Quarterly Review" on Page 35 of the Annual Report of CFW Communications Company to its shareholders for the year ended December 31, 1998 and is incorporated herein by reference. The regular cash dividend paid for each quarter of 1998 and 1997 was \$0.10875 and \$0.103, respectively, totaling \$0.435 and \$0.412 for the respective years.

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CFW COMMUNICATIONS COMPANY

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The Company's 7.26% unsecured senior notes contain restrictive covenants including restrictions relating to the payment of dividends. Pursuant to the restrictions of the senior notes, approximately \$12.5 million of the Company's consolidated retained earnings were available for the payment of dividends at December 31, 1998.

Item 6. SELECTED FINANCIAL DATA

The information included under the heading "Selected Financial Data and Five Year Growth Comparison" on Page 35 of the Annual Report of CFW Communications Company to its Shareholders for the year ended December 31, 1998 is incorporated herein by reference.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

## RESULTS OF OPERATIONS

The "Management's Discussion and Analysis" found on Pages 30 through 34 of the Annual Report of CFW Communications Company to its Shareholders for the year ended December 31, 1998 is incorporated herein by reference.

### Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has not entered into financial instruments that subject the Company to material market risk. Financial instruments in which the Company holds are disclosed in Notes 4 and 5 to the Company's Consolidated Financial Statements as found on pages 23 and 24 of the Annual Report of CFW to its Shareholders for the year ended December 31, 1998 and is incorporated herein by reference.

### Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this item is incorporated herein by reference to the Annual Report of CFW Communications Company to its Shareholders for the year ended December 31, 1998 as follows:

Financial statements and Independent Auditor's Report found on Pages 14 through 29.

### Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

### Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information included under the heading "Election of Directors" in the definitive Proxy Statement of the registrant for its 1999 Annual Meeting of Shareholders is incorporated herein by reference.

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CFW COMMUNICATIONS COMPANY

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### Item 11. EXECUTIVE COMPENSATION

The information included under the heading "Summary Compensation Tables" in the definitive Proxy Statement of the registrant for its 1999 Annual Meeting of Shareholders is incorporated herein by reference.

### Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information included under the headings "Election of Directors" and "Related Transactions" in the definitive Proxy Statement of the registrant for its 1999 Annual Meeting of Shareholders is incorporated herein by reference.

### Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information included under the headings "Election of Directors" and "Related Transactions" in the definitive Proxy Statement of the registrant for its 1999 Annual Meeting of Shareholders is incorporated herein by reference.



PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)1. Financial Statements

The following financial statements of CFW Communications Company are incorporated by reference in Part II, Item 8 of this FORM 10-K:

Consolidated Balance Sheets at December 31, 1998 and 1997.

Consolidated Statements of Income for the years ended December 31, 1998, 1997, and 1996.

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997, and 1996.

Consolidated Statements of Shareholders' Equity for the years ended December 31, 1998, 1997, and 1996.

Notes to Consolidated Financial Statements.

Independent Auditor's Report.

2. Exhibits

- ( 3 ) Articles of Incorporation and Bylaws, including all other amendments thereto, are incorporated by reference to Form 10-K, Exhibit 3, of CFW Communications Company dated March 30, 1998.

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CFW COMMUNICATIONS COMPANY

FORM 10-K

- (4.1) Original Note Agreement dated as of January 1, 1993 for \$20,000,000 7.26% senior notes due January 1, 2008 is incorporated herein by reference to Form 10-K, Exhibit 4, of CFW Communications Company dated March 24, 1993.
- (4.2) Rights Agreement dated as of February 26, 1990 is incorporated herein by reference to the Form 8-A, Exhibit 1 dated March 5, 1990.
- (10) The previously filed 1997 Stock Compensation Plan, Non-Employee Directors' Stock Option Plan and 1997 Employee Stock Purchase Plan are hereby incorporated by reference to the Company's Registration Statement on Forms S-8. (Regis. Nos. 333-40753, 333-40751 and 333-45593, respectively). The previously filed 1988 Stock Option plan is incorporated herein by reference to the Company's Registration Statement on Form S-4. (Regis. No. 33-20201) Annex IV.\*
- (13) Annual Report of CFW Communications Company to its shareholders for the year ended December 31, 1998 (See Note 1).
- (21) Subsidiaries of the registrant.
- (23) Consent of McGladrey and Pullen, LLP.
- (27) Financial Data Schedule for the year ended December

31, 1998.

- (99) Financial Statements of Virginia PCS Alliances, L.C.  
for the year ended December 31, 1998.

Note 1. With the exception of the information incorporated in this Form 10-K by reference thereto, the Annual Report shall not be deemed "filed" as part of this Form 10-K.

\* Compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to item 14 Form 10-K.

(b) Reports on Form 8-K.

There were no reports on Form 8-K for the three months ended December 31, 1998.

- (d) Financial information of subsidiaries not consolidated and 50 percent or less owned entities.

The following financial statements of Virginia PCS Alliances, L.C. are incorporated by reference in Part II, Item 8 of this FORM 10-K:

Balance Sheets at December 31, 1998 and 1997.

Statements of Operations for the years ended December 31, 1998 and 1997.

Statements of Cash Flows for the years ended December 31, 1998 and 1997.

Statements of Members' Equity (deficit) for the years ended December 31, 1998 and 1997.

Notes to Financial Statements.

Independent Auditor's Report.

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CFW COMMUNICATIONS COMPANY

FORM 10-K

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CFW COMMUNICATIONS COMPANY

Dated: March 30, 1999

By s/ J. S. Quarforth

J. S. Quarforth, President  
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<TABLE>

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<S> <C>

s/ R. S. Yeago, Jr.

Chairman of the Board,  
and Director

R. S. Yeago, Jr.

s/ J. S. Quarforth

President and  
Chief Executive Officer,

-----	and Director
J. S. Quarforth	
s/ C. A. Rosberg	Senior Vice President,
-----	Chief Operating Officer,
C. A. Rosberg	and Director
s/ C. P. Barger	Director
-----	
C. P. Barger	
s/ W. W. Gibbs, V	Director
-----	
W. W. Gibbs, V	
s/ J. B. Mitchell, Sr.	Director
-----	
J. B. Mitchell, Sr.	
s/ C. W. McNeely, III	Director
-----	
C. W. McNeely, III	
s/ J. N. Neff	Director
-----	
J. N. Neff	
s/ M. B. Moneymaker	Vice President and
-----	Chief Financial Officer,
M. B. Moneymaker	Treasurer and Secretary

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 </DOCUMENT>  
 <DOCUMENT>  
 <TYPE>EX-3  
 <SEQUENCE>2  
 <DESCRIPTION>ARTICLES OF INCORPORATION AND BYLAWS  
 <TEXT>

Exhibit 3

Amendment to Bylaws as approved at the December 15, 1997 Board meeting of CFW Communications Company:

Article II, Section 2.6 (Eligibility for Service as a Director) of the Corporation's Bylaws is deleted in its entirety and the following is substituted in its place:

2.6 Eligibility for Service as a Director. No person who shall have attained the age of 70 years shall be eligible for election as a Director of the Corporation. Notwithstanding the foregoing, any person who is serving as a Director of the Company and who was serving as a Director of Clifton Forge-Waynesboro Telephone Company on April 28, 1986 who had attained the age of 70 on such date shall be eligible for election and to serve until reaching age 80, whereupon such person shall retire, and any person who on such date had attained the age of 60 but was under the age of 70 shall be eligible for election and to serve until reaching age 75, whereupon such person shall retire.

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<DESCRIPTION>ANNUAL REPORT  
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CFW  
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Communications Company

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More Ways To Bring More e Together.

1998 Annual Report

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bringing people  
together in more ways

#### Telephone

The foundation of the Company's century-long communications services, CFW's local and long distance telephone services are offered through a state of the art digital switching system and extensive fiber optic network.

#### Wireless

CFW markets an array of wireless communications services including 100% digital PCS, cellular and paging services. Its digital PCS network extends through central and western Virginia and parts of West Virginia and is marketed under the brand name Intelos.

#### Internet

CFW offers local connections to the internet, as well as e-mail and consulting services. Dial-up services are complemented with high-speed data alternatives that include wireless cable modems and DSL solutions.

#### Network

CFW's extensive fiber optic network provides for the economical transfer and delivery of communications traffic from internet and long distance to wireless services. It provides an alternative route for other carriers and is also used by CFW to deliver CLEC service to businesses.

#### Video

CFW delivers cable television services to viewers, including packages with local or regional affiliates, pay-per-view and additional special services, cable networks, and access to premium providers including HBO and Cinemax.

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t	Board of Directors & Executive Officers	36
s	General Information	Inside Back Cover

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# financial highlights

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(In thousands, except for per share amounts)	1998	1997	Amount Inc. (De)
<S>	<C>	<C>	<C>
Operating Revenues	\$ 66,686	\$ 59,010	\$ 7,676
Operating Expenses	44,060	39,598	4,462
Operating Cash Flows (a)	33,130	28,608	4,522
Operating Income	22,627	19,412	3,215
Net Income (b)	8,508	12,221	(3,713)
Net Income Per Share - Diluted (b)	0.65	0.94	(0.29)
Cash Dividends Per Share	0.435	0.412	0.023
Investment In Property & Equipment	\$153,621	\$137,703	\$15,918
Average Number of Common Shares Outstanding - Diluted	13,094	13,056	38

</TABLE>

- (a) Operating Income before depreciation and amortization. See Management's Discussion & Analysis for additional factors to consider in using this measure.
- (b) Excluding gain on sale of investment, loss on write-down of investment and equity loss from PCS investees, net income was \$13.1 million (\$1.00 per common share - diluted) and \$11.3 million (\$0.86 per common share - diluted) for 1998 and 1997, respectively. This represents an increase of \$1.8 million or \$0.14 per common share - diluted.

CFW Communications Company is the Integrated Communications Provider (ICP) of choice for business and residential customers throughout central and western Virginia and West Virginia. Offering a diversified range of integrated telecommunications solutions and renowned customer service, CFW is a prime

source for serving any customer's communications requirements for voice, data and video. CFW finds more ways to bring more people together than any other communications company in the region.

Serving as Virginia's premier telecommunications company for more than a century, CFW is the largest independent telephone company headquartered in the Commonwealth and the 40th largest in the nation. Traded on the NASDAQ exchange (symbol: CFWC), the company has approximately 13 million shares outstanding and 3,000 shareholders.

c	Operating Revenues	Operating Cash Flows (a)
o	(in millions of dollars)	(in millions of dollars)
m	[graph appears here]	[graph appears here]
p	98 66.7	98 33.1
a	97 59.0	97 28.6
n	96 49.9	96 23.8
y	95 43.1	95 19.9
	94 32.2	94 17.3

Net Income  
(in millions of dollars)

[graph appears here]

98	8.5 (b)
97	12.2 (b)
96	9.6
95	8.5
94	7.6

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Key		Highlights
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**RETAIL STORES** - Opened 12 integrated communications retail stores in communities across Virginia and West Virginia, resulting in wider distribution of our products and services and greater convenience for our customers.

**PREPAID WIRELESS** - Introduced Intelos Express prepaid digital wireless phone service, expanding our target of wireless consumers and creating significant customer growth.

**BUNDLED SERVICES** - Launched internet and long distance services in Lynchburg and Winchester, Virginia and Charleston and Huntington, West Virginia, providing the first such integrated multi-service bundled packages with single billing in the region.

**NEW MARKETS** - Launched three strategic services in Charleston and Huntington, West Virginia making Intelos the first integrated communications provider to offer digital PCS, internet and long distance services in the region.

**CLEC SERVICE** - Initiated competitive local exchange carrier service in Charlottesville, Harrisonburg and Staunton, Virginia representing our first entry into the CLEC business and supporting our integrated services strategy.

**DSL SERVICE** - Began offering digital subscriber line (DSL) service, a new dedicated high-speed internet service, in Waynesboro, Virginia maximizing the value of copper wire infrastructure for customers.

**EXPANDED DIRECTORY ASSISTANCE** - Announced plans to renovate the historic Taylor Hotel in downtown Winchester as a third directory assistance center to meet increasing traffic demands.

**CUSTOMER CARE** - Constructed and opened a 31,000 square foot integrated customer contact center and training facility, supporting the Company's plan to provide a single point of contact for wide ranging services.

**BRAND** - Introduced the CFW Intelos brand in core markets while continuing to build the Intelos brand across the remaining market areas, more closely linking the two strong brands in the minds of our customers.

CFW and its progressive Integrated Communications Provider (ICP) concept has gained recognition in national magazines such as Wireless Review and Telephony. The operating team leading the company into its 102nd year includes (top row l. to r.) James Quarforth, President and CEO and Carl Rosberg, Senior Vice President and COO. (bottom row l. to r.) David Lowe, President, West Virginia Operations; David Maccarelli, Senior Vice President, Engineering and Carrier Services and Walter Zirkle, President, Virginia Operations.

[photographs (5) appear here]

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#### Letter to Shareholders

Nationally the telecommunications industry is in a state of unprecedented change -- mergers and acquisitions have become commonplace, competition is emerging and new players are rapidly entering the market. Companies are endeavoring to become integrated communications providers and attempting to bundle local, wireless, internet access and long distance services.

Our long-term shareholders and the rural communities we serve know that we have shared this vision of integrated services for quite some time. And more importantly, we have been executing a strategy to achieve it.

[map  
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here]

Today, we have the networks and infrastructure in place to offer digi-tal PCS, internet access, local telephone and long distance service in a rapidly expanding operating region. We also remain focused on continuing our reputation as a quality service provider, having recently opened a new state of the art customer contact center. And, through nineteen integrated retail store and kiosk locations and an expanded business sales team, we offer a host of residential and business communications solutions.

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#### Financial Results

Operating revenues were \$66.7 million in 1998, an increase of 13% over the previous year. Operating cash flows were \$33.1 million, an increase of 16% over 1997. Operating income was \$22.6 million, a 17% increase over last year. Net income for 1998 was \$8.5 million, or \$0.65 per share-diluted.

These record results reflect strong contributions from our telephone, directory assistance, cellular and paging operations. Highlights from these core services include cellular and paging customer growth of 30% from the prior year, as our combined cellular and paging customers reached 38,400, and growth in telephone access minutes and lines of 10.5% and 3.3%, respectively, from the prior year as access lines topped 36,700. Partially offsetting these results were start-up costs associated with our introduction in the second half of 1998 of competitive local telephone services in Charlottesville, Harrisonburg and Staunton, Virginia; introduction of DSL service, an advanced new high-speed internet product in Waynesboro, Virginia; and the launch of internet and long distance services in Lynchburg and Winchester, Virginia, and Charleston and Huntington, West Virginia.

In addition, we recognized \$6.5 million, before-tax, of equity losses reflecting our share of the operating losses associated with our investments in PCS alliances and \$1.0 million of loss, before-tax, from the write-down of our investment in American Telecasting, Inc.

#### 1998 ACCOMPLISHMENTS & STRATEGIC INITIATIVES

In 1998 we established Intelos as the leading digital PCS service provider in central and western Virginia as we closed out the year with a penetration rate of over one percent of the covered population in this region. In late 1998, we also launched digital PCS services in the Charleston and Huntington, West Virginia markets. And our PCS expansion plans don't stop there, as we have also started construction of a PCS network to serve the communities of Clarksburg, Fairmont and Morgantown, West Virginia, and expect to commercially offer digital PCS service in these new markets in the second quarter of 1999. With national roaming agreements in place with carriers such as Sprint PCS, our customers can look forward to the benefits of digital PCS, and, through the use of a dual mode handset, analog cellular or digital

PCS, nationwide.

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I Complementing our PCS service in each of these markets has been our  
n internet access service. In the fourth quarter of 1998 we followed our  
t PCS offering in Lynchburg and Winchester, Virginia, and Charleston and  
e Huntington, West Virginia, with internet access and long distance  
l services. We now offer internet access in ten markets and nearly  
o doubled our customer count from a year ago. Yet we are quick to  
s realize that the internet customer of today is continually looking for  
higher speed access to the internet. To address this demand, in  
D November 1998 we introduced an advanced new data service called DSL in  
i Waynesboro and have plans to deploy this exciting new technology in  
g seven additional markets by the end of 1999. We will also be testing  
i high-speed two-way wireless internet service in Charlottesville and  
t the Shenandoah Valley with plans to introduce this attractive  
a high-speed alternative by the end of 1999.

P In 1998 we commenced offering competitive local telephone service, or  
C CLEC, to businesses in the neighboring communities of Charlottesville,  
S Harrisonburg and Staunton, Virginia - a significant accomplishment  
considering the complexity involved in interconnecting with the three  
C largest local telephone companies in Virginia. With these  
o interconnections, and our back-office support in place, we plan to  
v expand this service offering to businesses in these and other  
e communities during 1999.

r While reselling local loops works for the business sector, we are  
a looking to provide local service to residential customers by wireless  
g local loop using the PCS spectrum. And with the Intelos PCS network in  
e place, we have the ability to redefine the local calling area by  
expanding our markets' current limited local calling areas. In early  
A 1999 we will begin to trial this service in selected markets and  
r anticipate a commercial launch later in the year.

e For our directory assistance operations, the year 1998 was a year for  
a integrating the rapid growth we experienced during 1997. Our directory  
assistance workforce has done an outstanding job in learning three new  
states introduced in 1997 and has also taken on the challenge of  
providing national directory assistance services for a new national  
directory assistance customer added during 1998. Our two existing call  
centers are at near-capacity and, to position the Company for future  
growth opportunities, we have commenced the renovation of a building in  
Winchester, Virginia that will house our third call center. This new  
center is expected to begin operations in May 1999, and when coupled  
with the new national directory assistance database located in  
Waynesboro, Virginia we will be prepared to aggressively pursue  
additional directory assistance business.

[map  
appears  
here] All of the aforementioned services have stimulated additional  
demand and usage of our 450 miles of fiber optic network. And  
with continued growth expected from each of these service  
offerings, coupled with our opening of new markets in Virginia  
and West Virginia, through a joint fiber build we plan to acquire  
500 additional miles of fiber to connect the balance of our  
cities in Virginia during 1999 and plan to build or acquire  
access to a fiber network in West Virginia in 2000.

A key enabler in our expansion has been the investment in back-office services  
that allows us to provide integrated billing and outstanding customer care. We  
recently opened a new integrated customer contact center located in Waynesboro,  
Virginia that will enable us to rapidly move toward a single point of contact  
for all services to simplify the service experience for

STRATEGIC SERVICES BY MARKET



1998 MARKET	PCS	INTERNET	LONG DISTANCE	LOCAL
Charlottesville, VA	*	*	*	*
Harrisonburg, VA	*	*	*	*
Staunton, VA	*	*	*	*
Waynesboro, VA	*	*	*	*
Charleston, WV	*	*	*	
Clifton Forge/Covington, VA		*	*	*
Huntington, WV	*	*	*	
Lexington, VA	*	*	*	
Lynchburg, VA	*	*	*	
Winchester, VA	*	*	*	
Danville, VA	*			
Martinsville, VA	*			
New River Valley, VA	*			
Roanoke, VA	*			

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[photograph appears here]

President and CEO, James Quarforth and Chairman, Robert Yeago share a vision for CFW and a commitment to the extensive region it serves. Quality products and services, knowledgeable and helpful employees, and service to our communities will continue to define CFW as it moves forward as the region's leading integrated communications provider.

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our customers. We operate a total of nineteen retail stores and kiosks and have expanded our business sales force throughout Virginia and West Virginia. These locations offer a single source for voice and data communications products and services, thereby providing as much convenience and accessibility to our customers as possible. In 1999, CFW will bring wireless data services to the Intelos PCS customer base allowing for circuit switched data from a PC or facsimile machine connected through a PCS phone. Later in 1999 and 2000, wireless data services will be enhanced to afford direct connection to the internet and improved speeds of up to 64 kbps. We are also moving toward electronic commerce and production of a single integrated bill to further enhance customer convenience.

#### OUTLOOK FOR 1999 AND BEYOND

As a mature company with strong cash flow, we have been able to make strategic investment decisions that have allowed us to reposition the Company as a regional ICP. Like most start-up PCS, competitive local exchange carriers (CLEC) or internet access providers, we too are incurring up-front losses associated with deploying these services. We believe this strategy will enable us to create long-term shareholder growth. We also believe that as other telecommunications companies transition into integrated communications providers, our story will be better understood by the investment community and the market values of our businesses will be more accurately reflected in our stock price.

In 1999 and beyond we plan to continue introducing our integrated communications service offerings to communities throughout central and western Virginia and West Virginia. These actions should accelerate our revenue growth in the years ahead; however, the start-up costs will, in the short-term, depress operating margins and earnings. We have the financial strength to absorb the impact from this expansion and unlike most start-up PCS, CLEC or internet providers, we have the financial ability to continue to support our history of paying dividends. We are proud to report that in February, 1999 the Board approved the thirty-fourth consecutive annual dividend increase, raising the annual dividend 5.52% to \$0.459 per share.

Thank you for your continued support.

/s/ James S. Quarforth

-----  
James S. Quarforth  
President and Chief Executive Officer

/s/ Robert S. Yeago, Jr.

-----  
Robert S. Yeago, Jr.  
Chairman of the Board

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[photographs appear here]  
More Ways

#### The ICP Concept

A world of communications possibilities for its customers--from a single provider. That's CFW's vision. And in the dynamic and fast-paced world of communications, it is quickly becoming a reality. CFW Communications represents the most progressive Integrated Communications Provider (ICP) in its regional service area. Couple the depth of its comprehensive array of communications services with an award-winning commitment to outstanding customer care, and its version of the ICP concept is created.

CFW has served as Virginia's premier communications company for more than 100 years, and its reputation for high-quality, value-added services, and outstanding customer care has never been greater or more widespread. Its integrated solutions encompass traditional telecom offerings as well as wireless communications services, high-speed data delivery, cable television and business and security systems. And, with a heritage richly centered in servicing the needs of an ever increasing customer base, its ability to deliver integrated communications products and services is overshadowed only by its desire to differentiate its proposition with unprecedented customer care. In combination, these elements provide its customers with the power to communicate whenever, wherever, and however they choose. Being an Integrated Communications Provider is a powerful premise that immediately differentiates CFW from other providers in its field.

This is the new age in communications, and people require reliable, comprehensive solutions for keeping in touch. Whether at home or at the office - -- CFW is proving it has more ways to bring more people together.

[photographs appear here]

Intelos digital PCS is at the forefront of wireless  
communications, delivering privacy, clarity, and a toll free  
calling area that can include the state, the region or the  
country.

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#### MORE ICP WAYS

CFW's philosophy of "more ways to bring more people together" is especially applicable in today's busy and fast-paced environment. Revolutionary leaps forward in technology and general availability of services have given modern age communications a personalized dimension. In the new age, every family and business can have a unique communications solution. The line between traditional residential and business services is becoming more obscure, the result of improved communications tools and the need to stay in touch with people rather than places. This revolution sets the stage for an ICP that can deliver comprehensive, integrated communications services that are reliable, easily obtainable, and meet the often overlapping needs of both residential and business customers.

f CFW's family of integrated communications services is among the  
l broadest in the industry. From within its own network infrastructure,

e CFW can provide customized solutions that exactly meet the needs of  
 x most residential or business customers in their region. And, while  
 i traditional telephone services continue to be available in core  
 b markets, CFW has expanded its offering to include digital PCS, local  
 i internet access, DSL, voicemail, directory assistance, long distance,  
 l paging, cellular, cable television, business telephone systems and  
 i security and alarm services. Many of these services cross the  
 t boundaries of traditional communications. Digital PCS, for example,  
 y may be coupled with text messaging services, like stock quotes or  
 headline news, to create a personal communications device that is as  
 unique to the customer as a fingerprint.

#### Full Service

[PHOTO]

CFW residential customers, such as the David Bull family, enjoy the quality and convenience of multiple communications services. One of the first to enjoy high speed internet access using DSL technology, the Bull's also have local telephone, long distance and wireless services. (Waynesboro, Virginia)

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#### Integrated Communications

CFW's ICP concept is further played out in nineteen company-owned retail stores and kiosks. These integrated communications shopping centers maintain a visible and striking presence in its markets while offering customers an opportunity to evaluate and sample the latest in communications technology. Professionally trained sales and service representatives are available to provide consulting services, answer questions and demonstrate CFW's complete family of communications services. More importantly, they can personally discuss with each customer how these services can be integrated together to make individual communications more effective. CFW's commitment to personal service is exemplified in its retail facilities, where they still do business by meeting customers person-to-person and creating long-term relationships.

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These retail facilities are complemented with business sales professionals that bring communications expertise directly to their business customers. By analyzing and assessing customer needs, CFW is able to craft solutions that maximize customer specific objectives for voice, data and video. Additionally, their representatives provide a single interface for business partners, establishing continuity and mutual respect. CFW realizes that business customers have many choices for communications services. At CFW, the difference is in its people, its personalized service, and the added value of the ICP concept.

But face-to-face is not the only way to reach CFW. Their new customer contact center in Waynesboro, Virginia was built on a century old foundation of deep rooted customer care philosophies. From this state of the art customer care and employee training center, CFW's service representatives receive and respond to customer

[photograph appears here]

Designed to reflect the comforts of home, CFW's integrated retail stores offer customers a relaxed environment in which to evaluate and sample the latest in communications technology. Strong colors and distinctive architectural designs further establish brand recognition throughout the region.

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inquiries by phone, fax, or e-mail. Universal service representatives are trained on a variety of communications services and provide a single point of contact for its customers.

You might also see CFW employees in their local communities. They could be at soccer practice in Roanoke, Virginia, the Regatta in Charleston, West Virginia or working as volunteers in any local school system. Their employees are well entrenched in serving the communities where they work and live, and CFW is proud to be making a positive influence in local communities across their region.

Whenever and wherever a communications need exists, you can depend on CFW to be there. Through integrated services, personalized customer care, integrated billing, and retail and business representatives, CFW works to create the seamless ICP relationship that its customers will trust now and in the future.

#### STRATEGY FOR ICP DEVELOPMENT

During the past year, CFW moved decisively in a direction that transformed the Company into a true regionally based ICP servicing central and western Virginia and West Virginia. By utilizing a robust digital PCS network and growing fiber capacity, CFW has been able to extend multiple-service offerings throughout a much larger regional footprint. In addition, the Company began offering local business dial tone to a broader service area, while also continuing to enhance traditional communications services with new technologies that enhance the value of its ICP concept. For example, CFW introduced DSL service that allows for simultaneous voice and data transmission over traditional copper lines. That means local telephone service customers can maximize their communications services by enjoying direct high-speed internet connections while taking voice calls at home or work without adding a second line.

By first deploying the Intelos digital PCS network in new markets, and then entering as a high-quality provider of competitively priced prepaid and postpaid wireless services, the Company has made it possible for customers to achieve innovative, feature-rich wireless communications while positioning for additional services. The digital PCS

[photograph appears here]

CFW's four strategic services meet the wide variety of voice and data needs of home and business customers. Key services, which may be offered as stand alone or as value-added bundles, include digital PCS, internet access and local and long distance telephone services.

#### Strategic Services

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#### Convenience

[photograph appears here]

George Davis, an independent stockbroker, is one of seven representatives of Ficon Insurance Agency who utilizes digital PCS from Intelos. "The long distance savings is just incredible - we never use our office phones to make calls outside of the area anymore." George takes his phone everywhere he goes and describes it as the "most convenient" wireless service in the region. (Charleston, West Virginia)

G	relationship becomes the foundation upon which to build a broader	Y
e	integrated services strategy. Internet, local and long distance	O
o	telephone services follow PCS into expanded regional markets.	U
g	These services are offered either as stand-alone communications	'
r	services or as part of integrated multi-service bundles designed	V
a	to maximize value for customers. Bundling is an important element	E

p in the ICP strategy, encouraging customers to seek a single  
h source provider for all of their communications needs, while  
i rewarding them in both savings and convenience. As an added  
c benefit, services in the multi-service pack ages are presented on  
a single bill and supported by universal customer care  
representatives.

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In a communications era of extraordinary evolution, CFW continually searches for opportunities to expand the value of both new and traditional services. Couple this with extraordinary customer care, personalized service, and integrated back-office support, and the ICP concept becomes a powerful proposition.

#### A YEAR OF NETWORK GROWTH

During 1998, CFW dramatically expanded the reach of its information services and fiber network. In information services, the Company's directory assistance group gained access to a national directory assistance database, positioning

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E it to capture significant portions of calling volumes from other  
x communications carriers. This important enhancement makes it easier  
p for callers to receive directory assistance even if they do not know  
a the area code. In light of the proliferation of area codes across the  
n United States in recent years, the ability to find a number based on  
s the name and state of the person called is a prime benefit. And these  
i services are delivered with the same commitment to outstanding  
o customer service that has been its hallmark for many years.  
n

While much of CFW's directory assistance business is contracted by large carriers, such as AT&T, during 1998 the Company experienced a growing volume of directory assistance calls from wireless customers, adding a new dimension to this already robust business. The Company's two directory assistance centers operated at near-capacity during the year, making a third center an appealing option.

In anticipation of continued demand and expansion of its directory assistance services, CFW began the renovation of the former Taylor Hotel in downtown Winchester, Virginia to serve as its third directory assistance center. This new call center, which will open in the second quarter of 1999, will accommodate up to 250 employees. Part of the ground floor level of the hotel will also serve as a highly visible retail store for the Company's products and services. In total, the project represents CFW's steadfast commitment to the region and to the directory assistance business.

In 1998, CFW significantly expanded its fiber network capabilities through direct connections to the CFN Fiber Network and AEP Communications Fiber Network, resulting in the ability to sell seamless

[PHOTO]

Well trained, directory assistance operators answer an average of 220,000 calls every business day. Our commitment to accuracy, quality and superior customer care has resulted in continued growth and expansion for CFW directory assistance services.

Network

11

<PAGE>

F voice and data transmission over 10,000 miles of fiber from  
i Pennsylvania to Florida. In addition, CFW continues to partner with  
b other telecommunications companies to grow its fiber network and other  
e facilities for economical wide-area-delivery of services.  
r

O This ability to deliver services to customers by a variety of means  
p provides added flexibility. As CFW expands its service offerings out  
t from the core wireless service, its extensive fiber capacity allows it  
i to economically link together widespread markets.  
c

#### A STRATEGY FOR THE FUTURE

N For a company so well grounded in the traditions of its past, CFW is  
e moving with confidence as an ICP into a strong future. CFW will  
t continue to carry other service providers' long distance and  
w communications traffic, further increasing its return on investment in  
o facilities. In addition, Intelos will lease portions of its digital  
r PCS network, which will improve return and encourage other carriers to  
k utilize Intelos' network infrastructure. Intelos will aggressively  
pursue the buildout of the digital PCS network that forms the  
foundation for its strategy of ICP service expansion.

With this foundation intact, the Company's four strategic services--digital PCS,  
internet, local and long distance telephone services--will continue to be  
extended into new and existing PCS markets. Intelos will install the necessary  
hardware and software to accommodate wireless data services in the first half of  
1999 and by early 2000, its digital PCS service will allow direct connections to  
the internet with improved speeds of up to 64 kbps.

CFW's regional footprint will continue to expand, as it plans to open the  
northern

[map appears here]

CFW and its partners, through interconnection agreements,  
offer a continuous fiber network encompassing 16 states and  
more than 10,000 miles. This extensive infrastructure makes  
for an attractive alternate traffic route for carriers, while  
also serving as a backbone for ICP service development in  
Virginia and West Virginia.

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[photograph appears here]

Our vision of the integrated communications provider concept  
is nearly realized. By combining the strengths of our rich  
heritage, our employees, and our services, we are confident  
of a bright future that finds more ways to bring more people  
together.

The Future

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corridor markets of West Virginia--including Clarksburg, Fairmont and  
Morgantown--in 1999. A new West Virginia operations center and switch facility

will be located in downtown Charleston, further enhancing its position as a regional integrated communications provider.

Certainly, it is foremost that CFW continually look for ways to add value to its relationships with its customers. This CFW will do through ever-enhanced services from a single source, expanded 24-hours by 7-days a week customer care, and a continuation of its corporate policy of involvement in the communities it serves.

There is a link between this company and its communities that spans a century. It will be CFW's strength as it moves forward, and will always be an integral part of its culture. It is also a time of great excitement and opportunity in communications, and CFW is positioned to prevail today, and to drive powerfully into the future. By developing the resources and systems needed to serve its customers over time, and by remaining true to its history and heritage as the premier provider of reliable communications, CFW will continue to find more ways to bring more people together.

#### Dedication

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#### Consolidated Balance Sheets CFW Communications Company and Subsidiaries

<TABLE>  
<CAPTION>

December 31,

<S>

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#### ASSETS

##### CURRENT ASSETS

Cash and cash equivalents	\$	
Accounts receivable, net of allowance of \$0.6 million (\$0.3 million in 1997)		12
Receivable from affiliates		5
Materials and supplies		2
Prepaid expenses and other		
Income taxes receivable		

21

##### SECURITIES AND INVESTMENTS

11

##### PROPERTY AND EQUIPMENT

Land	1
Buildings and improvements	19
Network plant and equipment	93
Furniture, fixtures, and other equipment	20
Radio spectrum licenses	15
	----
Total in service	149
Under construction	3

153

Less accumulated depreciation

50

102

OTHER ASSETS

Cost in excess of net assets of business acquired, less accumulated amortization of \$1.4 million (\$1.0 million in 1997)	12
Deferred charges	
Radio spectrum licenses	6

19

\$155

See Notes to Consolidated Financial Statements.

</TABLE>

<PAGE>

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<CAPTION>

December 31,

<S>

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LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 7
Customers' deposits	
Advance billings	2
Accrued payroll	1
Accrued interest	
Other accrued liabilities	2
Deferred revenue	1
Income taxes payable	

15

LONG-TERM DEBT

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LONG-TERM LIABILITIES

Deferred income taxes	14
Retirement benefits other than pensions	9
Other	1

25

MINORITY INTERESTS

1

COMMITMENTS

SHAREHOLDERS' EQUITY

Preferred stock, no par value per share, authorized 1,000,000 shares; none issued	
Common stock, no par value per share, authorized 20,000,000 shares; issued 13,016,988 shares (12,986,654 in 1997)	43
Retained earnings	49

93

\$155



&lt;/TABLE&gt;

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Consolidated Statements of Income  
CFW Communications Company and Subsidiaries

Years Ended December 31,	1998	
<S>	<C>	<C>
OPERATING REVENUES		
Wireline communications	\$37,596,778	\$34
Wireless communications	13,197,732	11
Directory assistance	12,949,714	10
Other communications services	2,941,880	2
	66,686,104	59
OPERATING EXPENSES		
Maintenance and support	10,837,093	9
Depreciation and amortization	10,503,338	9
Customer operations	16,223,183	14
Corporate operations	6,496,028	6
	44,059,642	39
OPERATING INCOME	22,626,462	19
OTHER INCOME (EXPENSES)		
Other expenses, principally interest	(729,926)	(1)
Interest and dividend income	106,835	
Equity loss from PCS investees	(6,467,031)	
Equity income from other wireless investees	197,906	
Loss on write-down of investment	(1,009,661)	(2)
Gain on sale of investment	-	5
	14,724,585	20
INCOME TAXES	5,638,940	7
	9,085,645	12
MINORITY INTERESTS	(578,005)	
NET INCOME	\$ 8,507,640	\$12
Net income per common share - basic	\$ 0.65	\$
Net income per common share - diluted	\$ 0.65	\$
Average shares outstanding - basic	13,007,880	12
Average shares outstanding - diluted	13,093,561	13
Cash dividends per share	\$ 0.435	\$

See Notes to Consolidated Financial Statements.

&lt;/TABLE&gt;

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Consolidated Statements of Cash Flows  
CFW Communications Company and Subsidiaries

<TABLE>  
<CAPTION>

Years Ended December 31,	1998	
<S>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 8,507,640	\$12
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,730,746	8
Amortization	772,592	
Deferred taxes	5,001,626	
Retirement benefits other than pensions	885,736	
Other	(37,534)	
Equity (gain) loss from wireless investees	6,269,125	
Minority interests, net of distributions	(4,013)	
Distributions received from investments	218,705	
Gain on sale of investment	-	(5)
Loss on write-down of investment	1,009,661	2
Changes in assets and liabilities from operations:		
Increase (decrease) in accounts receivable	83,299	(3)
Increase in materials and supplies	(137,550)	
Increase (decrease) in income taxes	(815,766)	
Increase in other current assets	(99,158)	
Increase (decrease) in accounts payable	2,873,684	
Increase (decrease) in other accrued liabilities	(530,281)	
Increase in other current liabilities	165,517	
Net cash provided by operating activities	33,894,029	18
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(16,736,272)	(14)
Purchase of PCS licenses	(666,885)	(4)
Investments in PCS alliances	(2,253,995)	(1)
Net advances to PCS alliances	(4,955,147)	
Purchase of investment	(1,004,681)	
Sale of mortgage-backed securities	971,288	
Maturities and distributions from other investments	(45,239)	
Purchase of cellular minority interests	-	(1)
Proceeds from the sale of investment	-	6
Net cash used in investing activities	(24,690,931)	(14)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends	(5,660,024)	(5)
Payments on senior notes and notes payable	(3,741,764)	
Payments on lines of credit, net	(1,090,134)	(1)
Stock redeemed	-	
Net proceeds from exercise of stock options	107,367	
Net cash used in financing activities	(10,384,555)	(6)
Decrease in cash and cash equivalents	(1,181,457)	(1)
Cash and cash equivalents:		
Beginning	1,224,347	3
Ending	\$ 42,890	\$1

See Notes to Consolidated Financial Statements.

</TABLE>  
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Consolidated Statements of Shareholders' Equity  
CFW Communications Company and Subsidiaries

<TABLE>  
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	Common Stock Shares	Amount	Retained Earnings	Accum Com
<S>	<C>	<C>	<C>	<C>
Balance, December 31, 1995	12,983,318	\$ 43,531,164	\$ 35,700,859	\$10
Comprehensive Income:				
Net income			9,549,706	
Unrealized loss on securities available for sale, net of \$4.8 million of deferred tax benefit				(7)
Comprehensive income				
Cash dividends			(5,087,255)	
Stock options exercised, net	6,894	22,589		
Stock redeemed	(10,000)	(175,313)		
Balance, December 31, 1996	12,980,212	43,378,440	40,163,310	2
Comprehensive Income:				
Net income			12,220,932	
Unrealized loss on securities available for sale, net of \$1.6 million of deferred tax benefit				(2)
Comprehensive income				
Cash dividends			(5,349,009)	
Stock options exercised, net	6,442	41,829		
Balance, December 31, 1997	12,986,654	43,420,269	47,035,233	
Comprehensive Income:				
Net income			8,507,640	
Comprehensive income				
Cash dividends			(5,660,024)	
Stock options exercised, net	30,334	107,367		
Balance, December 31, 1998	13,016,988	\$ 43,527,636	\$ 49,882,849	\$

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements  
CFW Communications Company and Subsidiaries

Note 1. Significant Accounting Policies

CFW Communications Company is a diversified regional communications company that provides a broad range of products and services to businesses, telecommunication carriers and residential customers in Virginia and surrounding states. The Company's services include local telephone, long distance, personal communications services ("PCS"), cellular, paging, wireline and wireless cable television, directory assistance, competitive access, local internet access and alarm monitoring and installation. Significant accounting policies follow:

**ACCOUNTING ESTIMATES:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**PRINCIPLES OF CONSOLIDATION:** The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and those partnerships where the Company, as managing partner, exercises control. All significant intercompany accounts and transactions have been eliminated.

**REVENUE RECOGNITION:** The Company's revenue recognition policy is to recognize revenues when services are rendered or when products are delivered, installed and functional, as applicable. Certain services of the Company require payment in advance of service performance. In such cases, the Company records a service liability at the time of billing and subsequently recognizes revenue over the service period.

**CASH AND CASH EQUIVALENTS:** For purposes of reporting cash flows, the Company considers all highly liquid debt instruments with a purchased maturity of three months or less to be cash equivalents. The Company places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the FDIC insurance limit.

**SECURITIES AND INVESTMENTS:** The Company has investments in debt and equity securities and partnerships. Management determines the appropriate classification of securities at the date of purchase and continually thereafter. The classification of those securities and the related accounting policies are as follows:

**AVAILABLE FOR SALE SECURITIES:** Securities classified as available for sale primarily are traded on a national exchange and are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors including changes in market conditions, liquidity needs and other similar factors. Securities available for sale are stated at fair value and unrealized holding gains and losses, net of the related deferred tax effect, are reported as a separate component of shareholders' equity. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings.

**EQUITY METHOD INVESTMENTS:** These investments consist of partnership and corporate investments where the Company's ownership is 20% or more, except where such investments meet the requirements for consolidation. Under the equity method, the Company's share in earnings or losses of these companies is included in earnings.

**INVESTMENTS CARRIED AT COST:** These are investments in which the Company does not have significant ownership and for which there is no ready market. Information regarding these and all other investments is reviewed continuously for evidence of impairment in value. No impairment was deemed to have occurred at December 31, 1998.

Interest on debt securities is recognized in income as accrued, and dividends on marketable equity securities recognized in income when declared. Realized gains or losses are determined on the basis of specific securities sold and are included in earnings.

**PROPERTY AND EQUIPMENT:** Property and equipment is stated at cost. Accumulated depreciation is charged with the cost of property retired, plus removal cost, less salvage. Depreciation is determined under the remaining life method and straight-line composite rates. Buildings are depreciated over a 50 year life. Network plant and equipment are depreciated over various lives from 3 to 50 years, with an average life of approximately 13 years for the category. Furniture, fixtures and other equipment are depreciated over various lives from 5 to 24 years. Radio spectrum licenses, which are for areas where the licenses are being used in operations, are amortized over a life of 30 years. The Company has other radio spectrum licenses that are included in other assets until such licenses are placed in service. Depreciation provisions were approximately 6.8%,

6.6% and 6.8% of average depreciable assets for the years 1998, 1997 and 1996, respectively.

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**MATERIALS AND SUPPLIES:** The Company's materials and supplies inventory consists primarily of items held for resale such as cellular and PCS phones, pagers, cable converter boxes, wireline business phones and accessories, and items used as installation and maintenance supplies. The Company values its inventory at the lower of average cost or market. The market value is determined by reviewing current replacement cost, marketability, and obsolescence. The balance for resale items at December 31, 1998 was \$1.4 million (\$0.8 million in 1997) and the installation and maintenance items \$0.8 million (\$1.2 million in 1997).

**COST IN EXCESS OF NET ASSETS ACQUIRED:** Cost in excess of net assets acquired resulting from acquisitions is being amortized over 30 years using the straight-line method. The Company periodically evaluates the recoverability of intangibles resulting from business acquisitions and assesses whether impairment has occurred. This assessment is derived based on current and future levels of income and cash flow as well as other factors, such as business trends, future prospects and market and economic conditions.

**PENSION BENEFITS:** At December 31, 1998, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 132, Employers' Disclosures about Pensions and Other Post-retirement Benefits. This standard revises the disclosure about pension and other post-retirement benefit plans. Accordingly, the disclosures in these financial statements have been modified to comply with this new standard. The Company sponsors a non-contributory defined benefit pension plan covering all employees who meet eligibility requirements. Pension benefits vest after five years of service and are based on years of service and average final compensation subject to certain reductions if the employee retires before reaching age 62. The Company's funding policy has been to contribute up to the maximum amount allowable by applicable regulations. Contributions are intended to provide not only for benefits based on service to date, but also for those expected to be earned in the future.

The Company also sponsors a contributory defined contribution plan under Internal Revenue Code Section 401(k) for substantially all employees. The Company contributes 60% of each participant's annual contribution for contributions up to 6% of each participant's annual compensation. The employee elects the type of investment fund from the equity, bond and annuity alternatives offered by the plan.

**RETIREMENT BENEFITS OTHER THAN PENSIONS:** The Company provides certain health care benefits for all retired employees that meet eligibility requirements. The Company's share of the estimated costs of benefits that will be paid after retirement is generally being accrued by charges to expense over the eligible employees' service periods to the dates they are fully eligible for benefits.

**INCOME TAXES:** Deferred income taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

**NET INCOME PER COMMON SHARE:** Basic net income per share was computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted net income per share was computed under the treasury stock method assuming the conversion, as of the beginning of the year, of all dilutive stock options.

The weighted average number of common shares outstanding (diluted), which was used to compute diluted net income per share, was derived by adding weighted average outstanding shares ("Average shares outstanding - basic") to assumed conversion of dilutive stock options (85,681, 73,525 and 78,161 shares for 1998, 1997 and 1996, respectively). The Company has 31,850, 52,450 and 54,450 stock options outstanding in 1998, 1997 and 1996, respectively, which could potentially dilute net income per share in future periods, but which were not

included in diluted net income per share for the periods presented since the results were antidilutive. There were no adjustments to net income in the computation of diluted net income per share.

**FAIR VALUE OF FINANCIAL INSTRUMENTS:** The fair values of financial instruments recorded on the balance sheet, except securities and investments, are not significantly different from the carrying amounts. Information as to securities and investments is included elsewhere in Notes 1, 3 and 4. The fair value of off balance sheet guarantees, as described in Note 3, is not determinable due to the nature of the transaction.

**DISCLOSURES REGARDING OPERATING SEGMENTS AND RELATED INFORMATION:** At December 31, 1998, the Company adopted the additional disclosure provisions of FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company has one customer that accounts for greater than 10% of its revenue, primarily consisting of carrier access charges for long distance services, billing and collecting services and directory assistance. The percent of operating revenue from this customer

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was 28% in 1998, 34% in 1997, and 24% in 1996. The primary segments receiving revenue from this customer are telephone and directory assistance (Note 2).

**COMPREHENSIVE INCOME:** The Company adopted the additional disclosure provisions of FASB Statement No. 130, Reporting Comprehensive Income, in the first quarter of 1998. This pronouncement results in the Company presenting, in a financial statement, all items required to be recognized under accounting standards as components of comprehensive income. The Company has elected to present this information in the consolidated statements of shareholders' equity.

**START-UP COSTS:** The Accounting Standards Executive Committee issued Statement of Position (SOP) 98-5, Reporting on the Costs of Start-Up Activities, in June 1998. This statement requires the costs of start-up activities, including organization costs, to be expensed as incurred. The statement broadly defines start-up activities as those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory and the like. The statement is effective beginning in 1999, and requires that previously deferred start-up costs be written-off through a cumulative effect charge to earnings when the statement is initially adopted. Adoption of this statement is not expected to have a material impact to the Company's results of operations or the Company's financial position.

**FINANCIAL STATEMENT CLASSIFICATIONS:** Certain amounts on the prior year financial statements have been reclassified, with no effect on net income, to conform with classification adopted in 1998.

Note 2. Disclosures About Segments of an Enterprise and Related Information

The Company has five primary business segments which have separable management focus and infrastructures and that offer different products and services. These segments are as follows:

**Telephone:** The Company has a 100 year old local telephone business subject to the regulations of the State Corporation Commission of Virginia. This business is the incumbent local exchange carrier (ILEC) for several areas in western Virginia. Principal products offered by this business are local service which includes advanced calling features, network access, long distance toll and directory advertising.

**Network:** The Company directly or indirectly owns 450 miles of fiber optic network and provides transport services for long distance, internet and private network services. This network is connected and marketed with Carolina's FiberNet throughout the Southeast. Additionally, the network business offers internet and, in 1998, began marketing long distance and competitive local exchange service in certain Virginia markets.

Wireless: The Company's wireless business carries cellular and digital phones and services, paging and voicemail and is marketed in the retail, business-to-business and wholesale channels within the Company's cellular territories.

Directory Assistance: The Company's directory assistance business provides third party directory assistance for customers of several communications companies and handles approximately 220,000 requests per average business day. Revenues from its largest customer, AT&T, accounted for 94%, 97% and 100% of the segment's total revenues for 1998, 1997, and 1996, respectively.

Wireless Cable: The cable business offers a wireless video cable service and has launched a wireless cable high-speed internet service in Charlottesville, Virginia.

Wireless revenues are reported net of cost of sales, primarily for handsets, of \$4.4 million, \$1.7 million and \$1.9 million for the three years ended December 31, 1998. Directory assistance revenues are reported net of database access charges of \$5.0 million, \$4.1 million and \$2.3 million for the three years ended December 31, 1998. Wireless cable revenues are reported net of programming and equipment costs of \$1.7 million, \$1.5 million and \$1.1 million for the three years ended December 31, 1998.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1). The Company evaluates the performance of its operating segments principally on operating revenues and earnings before income taxes, depreciation and amortization (EBITDA). Corporate functions are allocated at cost to the operating segments and all other intercompany transactions are cost based. Segment depreciation and amortization contains an allocation of depreciation and amortization from corporate assets. Corporate depreciation and amortization not allocated to the segments are indicated in the "Other" column in the table following.

Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column includes certain unallocated corporate related items, and results from the Company's alarm, communication services and wireline cable businesses which are not considered separate reportable segments.

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(in thousands)	Telephone	Network	Wireless	Directory Assistance	Wireless Cable
<S>	<C>	<C>	<C>	<C>	<C>
1998					
Revenues	\$30,548	\$ 5,440	\$10,231	\$12,950	\$2,966
EBITDA	21,715	1,605	4,896	3,018	365
Depreciation & Amortization	3,343	1,637	637	1,032	2,724
Total Segment Assets	42,521	14,081	7,581	10,942	26,018
Corporate Assets					
Total Assets					
1997					
Revenues	\$28,828	\$3,997	\$8,602	\$10,533	\$3,112
EBITDA	19,708	1,887	4,318	1,627	285
Depreciation & Amortization	3,169	1,071	602	916	2,567
Total Segment Assets	40,523	12,822	6,877	12,593	29,048
Corporate Assets					
Total Assets					

1996					
Revenues	\$27,388	\$3,592	\$6,819	\$6,400	\$2,385
EBITDA	17,982	2,453	2,875	925	(488)
Depreciation & Amortization	3,887	785	448	670	1,907
Total Segment Assets	38,942	13,252	7,439	9,711	28,952
Corporate Assets					

Total Assets

</TABLE>

### Note 3. Investments in Wireless Affiliates

At December 31, 1998, the Company had invested \$0.9 million (\$0.8 million at December 31, 1997) for a 21% common ownership interest in Virginia PCS Alliance, L.C. ("VA Alliance"), a provider of PCS serving a 1.6 million populated area in central and western Virginia. The Company is managing network expansion and ongoing operations pursuant to a service agreement. PCS operations began throughout the Virginia region in the fourth quarter of 1997.

At December 31, 1998, the Company had invested approximately \$6.0 million (\$4.2 million at December 31, 1997) for convertible preferred ownership interest in the VA Alliance which is convertible after four years into additional common ownership interest. If converted, the Company would have a 43% ownership interest in the VA Alliance. In December 1996, the VA Alliance also issued \$12.9 million of redeemable preferred ownership interest that can be redeemed by the investor after December 31, 2001. In the event the investor elects to redeem such preferred equity after such date, the Company may elect to fund \$11.4 million of such obligation in exchange for additional common ownership in the VA Alliance. In the event this redemption and funding occurs, and the Company converts its convertible preferred ownership interest, the Company would have a 65% common ownership interest in the VA Alliance.

The Company has committed to provide \$9.8 million of additional capital to the VA Alliance in three equal annual installments beginning in January 1999. Such additional capital commitments would be reduced by proceeds, if any, from future equity offerings by the VA Alliance.

The Company has a 45% common ownership interest in the West Virginia PCS Alliance, L.C. ("WV Alliance"), a provider of PCS serving a 2.0 million populated area in West Virginia and eastern Kentucky, southwestern Virginia and eastern Ohio. The Company is managing network expansion and ongoing operations pursuant to a service agreement. PCS operations began in Charleston and Huntington, West Virginia in the fourth quarter of 1998.

In August 1997, the Company contributed PCS licenses valued at \$4.5 million and approximately \$1.0 million in cash in exchange for such ownership in the WV Alliance. The Company has committed to provide \$2.5 million of additional capital to the WV Alliance in four equal annual installments beginning in January 1999. Such additional capital commitments would be reduced by proceeds, if any, from future equity offerings by the WV Alliance.

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Combined summarized financial information for the VA Alliance and WV Alliance ("Alliances"), both of which are accounted for by the equity method, are as follows:

(in thousands)	1998	1997
Current assets	\$ 4,136	\$ 5,756
Noncurrent assets	131,312	101,560
Current liabilities	22,723	37,549
Noncurrent liabilities	98,380	33,571
Redeemable preferred interest	14,345	12,812
(in thousands)	1998	1997
Net sales	\$ 4,756	\$ 119



Gross profit (loss)	1,528	(197)
Net loss applicable to common owners	(27,518)	(3,952)
Company's share of net loss	(6,467)	(834)

The Company has entered guarantee agreements whereby the Company is committed to provide guarantees of up to \$50.5 million of the Alliances' debt and redeemable preferred obligations. Such guarantees become effective as obligations are incurred by the Alliances. At December 31, 1998, the Company has guaranteed \$34.6 million of the Alliances' obligations.

In its managing member role, the Company provides certain corporate services for the Alliances, including executive, finance, accounting, information management, human resources, and other general and administrative services (collectively, "corporate services"). The Company charged the Alliances \$1.9 million in 1998 and \$0.5 million in 1997 for these corporate services.

In connection with providing corporate services, the Company processes and pays the Alliances' capital and general operating expenses and is subsequently reimbursed. The outstanding advances at December 31, 1998 totalled \$5.6 million (\$0.7 million at December 31, 1997).

Retained earnings of the Company at December 31, 1998, include accumulated losses of \$4.5 million related to these Alliances.

In April 1997, the Company sold its 30% limited interest in the Roanoke MSA Cellular Partnership to GTE Wireless ("GTE") for approximately \$6.6 million and recognized a gain on the sale of approximately \$5.1 million. The Company recognized equity income from the Roanoke MSA Cellular Partnership of approximately \$16,000 and \$374,000 in 1997 and 1996, respectively. In addition, in April 1997, the Company purchased from GTE an 8.4% interest in the Virginia RSA 6 Cellular Partnership for approximately \$1.1million. At December 31, 1998, the Company had an 84% ownership interest in the Virginia RSA 6 Cellular Partnership.

#### Note 4. Securities and Investments

Investments consist of the following as of December 31:

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Type of Ownership		
<S>	<C>	<C>
Available for Sale		
American Telecasting, Inc.	Equity Securities	\$
Mortgage-backed securities	Debt Securities	
-----		
Equity Method		
Virginia PCS Alliance, L.C.	Equity and Convertible Preferred Interests	
West Virginia PCS Alliance, L.C.	Equity Interest	
Virginia Telecommunications Partnership	General Partnership Interest	
Virginia Independent Telephone Alliance	Limited Partnership Interest	
Other	Partnership Interests	
-----		
Cost Method		
Illuminet Holdings, Inc.	Equity and Convertible Debt Securities	
Multimedia Medical Systems, Inc.	Equity Securities	
Listing Services Solutions, Inc.	Equity Securities	
Other	Equity Securities	
-----		
		\$1
-----		

&lt;/TABLE&gt;

&lt;PAGE&gt;

The Company recognized a \$1.0 million and \$2.8 million impairment loss for the years ended December 31, 1998 and 1997, respectively, on its investment in American Telecasting, Inc. (ATEL) which resulted in a carrying value in the investment of \$0.3 million at December 31, 1998.

Changes in the unrealized gain (loss) on available for sale securities during the years ended December 31, 1998 and 1997, reported as a separate component of shareholders' equity and making up the entire amount of accumulated other comprehensive income are as follows:

&lt;TABLE&gt;

&lt;CAPTION&gt;

<S>	<C>
Unrealized gain, beginning balance	\$
Unrealized holding gains (losses) during the year	
Unrealized gain, ending balance	\$

&lt;/TABLE&gt;

#### Note 5. Long-Term Debt and Lines of Credit

Long-term debt and lines of credit consist of the following as of December 31:

&lt;TABLE&gt;

&lt;CAPTION&gt;

<S>	<C>
7.26% Unsecured senior notes due in annual installments from 1999 to 2007	\$16
6.25% Notes payable secured by certain PCS radio spectrum licenses due from 1999 to 2006	1
Borrowings under lines of credit	1
	\$19

&lt;/TABLE&gt;

The unsecured senior note agreement contains various restrictive covenants including restrictions relating to additional debt issuance, fixed charges, net worth and payment of dividends. Approximately \$12.5 million of retained earnings were available for the payment of dividends at December 31, 1998.

The Company paid \$3.6 million of principal on the unsecured senior notes in January 1999 with proceeds from borrowings under the Company's lines of credit. The Company has classified this payment amount and borrowings under its notes payable and lines of credit as long-term, since the Company has the ability and the intent to refinance these borrowings with an existing line of credit that has a maturity of beyond one year. The Company has available lines of credit aggregating \$24.0 million at December 31, 1998. The blended interest rates on the borrowings under lines of credit as of December 31, 1998, 1997 and 1996 was 5.2%, 5.9% and 5.9%, respectively.

Interest expense was \$716,000, \$888,000, and \$1,325,000 for 1998, 1997, and 1996, respectively. Maturities of long-term debt for each of the next five years are 1999 - \$0, 2000 - \$7,592,000; 2001 - \$1,982,000; and 2002 - \$1,993,000; and 2003 - \$2,004,000.

#### Note 6. Shareholder Rights Plan

In 1990, the Company adopted a ten-year shareholder rights plan that provides a right to common shareholders to acquire a unit of preferred stock of the Company at a purchase price of \$130. The right is exercisable only upon the occurrence

of certain events. If a third party acquires 20% or more of the Company's common stock, without prior approval of the Board of Directors, other shareholders are entitled to receive, upon exercise of the right and payment of the purchase price, common stock or preferred stock at the option of the Company having a value equal to twice the amount of the purchase price.

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#### Note 7. Income Taxes

The components of income tax expense are as follows for the years ended December 31:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	1998	
<S>	<C>	<C>
Current tax expense:		
Federal tax expense	\$ 690,507	\$6
State tax expense (benefit)	(53,193)	1
	637,314	7
Deferred tax expense		
Federal tax expense	4,500,178	
State tax expense	501,448	
Investment tax credits amortized	-	
	5,001,626	
	\$5,638,940	\$7

&lt;/TABLE&gt;

Total income tax expense was different than an amount computed by applying the graduated statutory federal income tax rates to income before taxes. The reasons for the differences are as follows for the years ended December 31:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	1998	
<S>	<C>	<C>
Computed tax at statutory rate	\$4,851,302	\$6
Investment tax credits amortization	-	
State income taxes, net of federal income tax benefit	560,204	
Other - net	227,434	
	\$5,638,940	\$7

&lt;/TABLE&gt;

Net deferred income tax assets and liabilities consist of the following components at December 31:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	<C>
<S>	
Deferred income tax assets:	
Retirement benefits other than pension	\$ 3
Net operating loss of acquired company	1
Net operating loss	
Alternative minimum tax credit carryforwards	
Accrued expenses	
Other	

	6
Deferred income tax liabilities:	
Investments, net	5
Property and equipment	14
Other	
	20
Net deferred income tax liabilities	\$14

</TABLE>

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#### Note 8. Pension Plans and Other Postretirement Benefits

The Company sponsors several qualified and nonqualified pension plans and other postretirement benefit plans for its employees. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 1998, and a statement of the funded status as of December 31 of each year:

<TABLE>

<CAPTION>

	Defined Benefit Pension Plan 1998	1997	Other Pos 199
<S>	<C>	<C>	<C>
Change in benefit obligations:			
Benefit obligations, beginning	\$16,655,591	\$15,646,558	\$ 7,134
Service cost	617,099	486,925	202
Interest cost	1,212,044	1,175,197	525
Amendment	-	(249,319)	
Actuarial (gain) loss	1,767,159	479,493	671
Benefits paid	(878,231)	(883,263)	(117)
Benefit obligations, ending	\$19,373,662	\$16,655,591	\$ 8,417
Change in plan assets:			
Fair value of plan assets, beginning	\$17,791,099	\$16,279,589	\$
Actual return on plan assets	2,206,080	2,394,773	
Employer contribution	-	-	117
Benefits paid	(878,231)	(883,263)	(117)
Fair value plan assets, ending	\$19,118,948	\$17,791,099	\$
Funded status:			
Funded status, beginning	\$ (254,714)	\$ 1,135,508	\$ (8,417)
Unrecognized net actuarial gain	(861,171)	(2,178,484)	(170)
Unrecognized prior service cost	533,334	565,873	
Unrecognized transition obligations	47,341	63,122	
Accrued benefit cost	\$ (535,210)	\$ (413,981)	\$ (8,587)

</TABLE>

The Company's matching contributions to the defined contribution plan were \$406,000, \$337,000, and \$246,000 for the years ended December 31, 1998, 1997, and 1996.

The accumulated benefit obligation of the Company's nonqualified pension plan was approximately \$730,000, \$446,000 and \$249,000 at December 31, 1998, 1997, and 1996, respectively, and has been classified with retirement benefits other than pensions. All of the Company's plans for postretirement benefits other than pensions and the nonqualified pension plan have no plan assets.

The following table provides the components of net periodic benefit cost

for the plans:

<TABLE>  
<CAPTION>

	Defined Benefit Pension Plan			Other Po
	1998	1997	1996	1998
-----				
<S>	<C>	<C>	<C>	<C>
Service cost	\$ 617,099	\$ 486,925	\$ 445,527	\$202,34
Interest cost	1,212,044	1,175,197	1,043,933	525,78
Expected return on plan assets	(1,729,609)	(1,579,686)	(1,444,994)	-
Amortization of transition obligations	15,781	15,781	15,781	-
Amortization of prior service cost	32,539	45,005	12,529	-
Recognized net actuarial gain	(26,625)	(15,352)	(13,304)	(9,38
-----				
Net periodic benefit cost	\$ 121,229	\$ 127,870	\$ 59,472	\$718,74
-----				

</TABLE>

The prior-service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

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The Company has multiple nonpension postretirement benefit plans. The health care plan is contributory, with participants' contributions adjusted annually; the life insurance plans are also contributory. Eligibility for the life insurance plan has been restricted to active pension participants age 50-64 as of January 5, 1994. The accounting for the plans anticipates that the Company will maintain a consistent level of cost sharing for the benefits with the retirees.

The assumptions used in the measurements of the Company's benefit obligations are shown in the following table:

<TABLE>  
<CAPTION>

	Defined Benefit Pension Plan			Other P
	1998	1997	1996	1998
-----				
<S>	<C>	<C>	<C>	<
Assumptions as of December 31				
Discount rate	7.00%	7.50%	7.75%	7
Expected return on plan assets	10.00%	10.00%	9.50%	
Rate of compensation increase	4.75%	4.75%	4.75%	
-----				

</TABLE>

For measurement purposes, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for the 1998. The rate was assumed to decrease gradually each year to a rate of 5.75% for 2001 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The effect of a 1% change on the total of service and interest cost components of net periodic postretirement health care benefit cost would be \$137,000 for a 1% increase and \$108,000 for a 1% decrease. Additionally, the effect of a 1% change on the health care component of the accumulated postretirement benefit obligations would be \$1,324,000 for a 1% increase and \$1,062,000 for a 1% decrease.

#### Note 9. Stock Plans

The Company's 1997 Stock Compensation Plan (Option Plan), which replaces the Company's 1988 Stock Option Plan, provides for the grant of stock options, stock appreciation rights (SARS), stock awards and performance shares to officers and

certain key management employees. A maximum of 950,000 shares of common stock may be issued under the Option Plan by means of the exercise of options or SARS, the grant of stock awards and/or the settlement of performance shares. The Company's Non-Employee Director's Stock Option Plan (Director's Plan) provides a non-employee director the opportunity to receive stock options in lieu of a retainer fee. A maximum of 25,000 shares of common stock may be issued upon the exercise of options granted under the Director's Plan. Stock options must be granted under the Plans at not less than 100% of fair market value at the date of grant and have a maximum life of ten years from the date of grant. Options and other awards under the Plans may be exercised in compliance with such requirements as determined by a committee of the Board of Directors.

A summary of the status of the Stock Option Plans at December 31, 1998, 1997 and 1996 and changes during the years ended on those dates is as follows:

<TABLE>  
<CAPTION>

Options	1998		1997	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	409,210	\$17.10	325,022	\$15.90
Granted	115,740	23.02	109,373	20.68
Exercised	(45,971)	10.25	(8,915)	10.33
Forfeited	(10,300)	21.62	(16,270)	20.90
Outstanding at end of year	468,679	\$19.13	409,210	\$17.10
Exercisable at end of year	225,631	\$17.12	212,545	\$14.89
Weighted average fair value per option of options granted during the year	\$6.91		\$6.15	

</TABLE>

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The following table summarizes information about stock options outstanding at December 31, 1998:

<TABLE>  
<CAPTION>

Range of Exercise Prices	Options Outstanding		Option
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>
\$ 6.50 - 10.00	45,500	1 year	\$ 8.81
\$12.75 - 18.25	140,066	6 years	\$16.75
\$18.38 - 25.75	283,113	8 years	\$21.91

</TABLE>

Grants of options under the Plans are accounted for following Accounting Principles Board (APB) Opinion No. 25 and related interpretations. Accordingly, no compensation cost has been recorded. The Company has elected to apply the disclosure-only provisions of FASB Statement No. 123. However, had compensation cost been recorded based on the fair value of awards at the grant date, the pro forma impact on the Company's net income and net income per common share - diluted would have been less than \$0.4 million (\$0.03 per share) in 1998 and \$0.2 million (\$0.02 per share) for 1997 and 1996. The pro forma effects of applying FASB Statement No. 123 are not indicative of future amounts since, among other reasons, the requirements of the Statement have been applied only to

options granted after December 31, 1994.

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend rate of 1.7% to 2.0% for 1998, 1.9% to 2.3% for 1997, and 2.0% for 1996; risk-free interest rates of 5.0% to 5.7% for 1998, 5.9% to 6.3% for 1997 and 6.4% for 1996; expected lives of 6 years for 1998 and 1997 and 8 years for 1996; and price volatility of 26.0% to 26.3% for 1998, 23.1% to 24.6% for 1997 and 15.8% for 1996.

The Company also has a plan whereby its common stock can be purchased by employees at a price 10% less than the market price on the issue date.

#### Note 10. Supplementary Disclosures Of Cash Flow Information

The following information is presented as supplementary disclosures for the Consolidated Statements of Cash Flows:

<TABLE>  
<CAPTION>

	1998	
<S>	<C>	<C>
Cash payments for:		
Interest, net of capitalized interest of \$785,854 in 1998, \$762,643 in 1997, and \$322,516 in 1996	\$ 925,609	\$1
Income taxes	\$1,453,080	\$6

</TABLE>

In 1997 the Company contributed two PCS radio spectrum licenses valued at \$4.5 million to the WV Alliance in exchange for equity ownership (Note 3). In 1997, the Company acquired through the FCC auction certain PCS radio spectrum licenses for approximately \$1.6 million of notes payable.

#### Note 11. Lease Commitments

The Company has several operating leases for administrative office space, retail space, tower space, channel rights, and equipment. The leases for retail and tower space have initial lease periods of ten to thirty years. These leases are associated with the operation of a cellular business in Virginia Rural Service Area 6 in which the Company is the general partner. The leases for channel rights relate to the Company's wireless cable operations and have initial terms of three to ten years. The equipment leases have an initial term of three years. Rental expense for operating leases was \$2,011,000, \$1,352,000, \$977,000, in 1998, 1997, and 1996, respectively. The total amount committed under these lease agreements is: \$1,000,000 in 1999, \$518,000 in 2000, \$410,000 in 2001, \$331,000 in 2002, \$278,000 in 2003 and \$3,407,000 for the years thereafter.

The Company has commitments for capital expenditures of approximately \$6 million as of December 31, 1998, all of which are expected to be incurred in fiscal 1999.

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#### Independent Auditor's Report

To the Board of Directors  
CFW Communications Company  
Waynesboro, Virginia

We have audited the accompanying consolidated balance sheets of CFW Communications Company and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CFW Communications Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

Richmond, Virginia  
February 12, 1999

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## Management's Discussion and Analysis

### OVERVIEW

CFW Communications Company ("CFW" or the "Company") is a diversified communications company providing a broad range of products and services to business and residential customers primarily in Virginia and West Virginia. These communications products and services include local telephone, long distance, cellular, personal communications service (PCS), paging, wireless and wireline cable television, directory assistance, competitive access, local internet access, and alarm monitoring and installation.

The Company's strategy is to be a regional full-service provider of communications products and services to customers within an expanding service area. The Company has implemented this strategy through acquisitions, investments in spectrum licenses and internal growth through capital investment. In addition, the Company has leveraged its existing switching platform and fiber optic network by introducing new services such as long distance directory assistance, long distance services to local telephone customers and surrounding communities, cable television, local internet access, and various enhanced services including Call Waiting and Caller Identification. These activities continue to contribute to growth in the Company's operating revenues. In addition to these activities, the Company has commenced offering, in selected markets within Virginia, a competitive local telephone service, high-speed wireless cable and digital subscriber line (DSL) internet services and a wireless local telephone service. Further, the Company will be expanding its operations base and its service offerings in Virginia and West Virginia in 1999.

As a result of the Company's increasing focus on and growth in wireless communications and other competitive communications-related businesses, a larger percentage of the Company's operating revenues and operating cash flows (operating cash flows is defined as operating income before depreciation and amortization) are being generated by businesses other than the mature telephone operations. Accordingly, management believes operating cash flows is a meaningful indicator of the Company's performance. Operating cash flows is commonly used in the wireless communications industry and by financial analysts and others who follow the industry to measure operating performance. Operating cash flows should not be construed as an alternative to operating income or cash flows from operating activities (both as determined in accordance with generally accepted accounting principles) or as a measure of liquidity.

Through the Virginia PCS Alliance, L.C. ("VA Alliance") and West Virginia PCS Alliance, L.C. ("WV Alliance"), and other PCS joint ventures, the Company has acquired radio spectrum licenses for personal communications service ("PCS") for markets with an aggregate population of five million people. These licenses have enabled the Company, as managing member of both Alliances, to deploy PCS in central and western Virginia and central West Virginia and will enable the Company to provide services in additional markets in Virginia, West Virginia and parts of Maryland, Ohio, Pennsylvania, Kentucky and Tennessee. The VA Alliance



completed its first full year of operation in 1998 and the WV Alliance commenced offering PCS in Charleston and Huntington, West Virginia in the fourth quarter of 1998. The Company plans to commence providing PCS in the Clarksburg, Fairmont and Morgantown, West Virginia corridor in the first half of 1999. In 1999, management expects continued growth in revenue, operating cash flows and operating income from its current consolidated operations. However, the Company expects lower operating margins due to start-up costs of newer businesses associated with expansion into new markets and introduction of new service offerings through the region. The Company's recognition of its share of losses associated with its investments in the PCS Alliances is expected to be significant in 1999 as the Company recognizes a full year of operating losses from both the Virginia and West Virginia Alliances. These losses from equity investments are expected to exceed net income growth from consolidated operations and will likely result in consolidated net income levels below amounts reported in recent years. These losses from equity investments are also expected to continue into future years until build-out is completed and a sufficient customer base is established.

The Company wishes to caution readers that these forward-looking statements and any other forward-looking statements made by the Company are based on a number of assumptions, estimates and projections including but not limited to; continuation of economic growth and demand for wireless and wireline communications services; continuation of current level of services for certain material customers; reform initiatives being considered by the FCC being relatively revenue neutral; significant competition in the Company's telephone service area not emerging in 1999; the impact on capital requirements and earnings from new business opportunities and expansion into new markets and anticipated competitive activity not being greater than anticipated; and the achievement of build-out, operational, capital, financing and marketing plans relating to deployment of PCS services. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that any significant deviations from these assumptions could cause actual results to differ materially from those in the above and other forward-looking statements. Forward-looking statements included herein are as of the date hereof and the Company undertakes no obligation to revise or update such statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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## RESULTS OF OPERATIONS

**SUMMARY-** Operating revenues were \$66.7 million in 1998, an increase of 13% over 1997. Operating cash flows were \$33.1 million, an increase of 16% over 1997. Operating income was \$22.6 million in 1998, an increase of 17% over 1997. Strong customer growth in our cellular and paging operations of 28% and 33%, respectively, fueled the growth in our wireless operations. Operating results from our wireline operations reflect continued strong contributions from our telephone operations, led by 3% growth in access lines, 11% growth in access minutes and continued growth in calling features, over 80% increase in internet customers and effective cost control. Results from our directory assistance operations reflect the annualized revenue stream from 1997 contract expansions and operating efficiencies. Start-up costs associated with expansion into new markets and new service offerings reduced the year to year percentage increases.

Net income for 1998 was \$8.5 million, or \$0.65 per share-diluted, which includes a \$1.0 million (\$0.6 million after tax, or \$0.05 per share) loss on the write-down of our investment in American Telecasting, Inc. (ATEL) (see Note 4 to the financial statements) and equity losses from PCS investees of \$6.5 million (\$4.0 million after tax, or \$0.30 per share). Exclusive of these transactions, earnings for 1998 were \$13.1 million, or \$1.00 per share. These earnings results reflect the continued growth from our consolidated operations, particularly directory assistance and cellular.

Net income for 1997 was \$12.2 million, or \$0.94 per share-diluted, including a \$5.1 million gain (\$3.1 million after tax, or \$0.24 per share) on the sale of our investment in the Roanoke MSA Cellular Partnership (see Note 3 to the financial statements, hereinafter referred to as "Note 3"), a \$2.8 million (\$1.7 million after tax, or \$0.13 per share) loss on write-down of our investment in ATEL and a \$0.8 million loss (\$0.5 million after tax, or \$0.04 per share) from the Company's equity share of losses from PCS investees. Exclusive of these

transactions, earnings for 1997 were \$11.3 million, or \$0.86 per share. These earnings reflect the growth from our consolidated telephone, cellular and directory assistance operations.

**OPERATING REVENUES** - Total operating revenues were \$66.7 million, an increase of \$7.7 million, or 13% over 1997 (\$9.1 million, or 18%, increase in 1997 over 1996). The increases were primarily attributable to wireline services, cellular, and directory assistance. Wireline revenue in 1998 totaled \$37.6 million, an increase of \$3.1 million, or 9% over 1997 (\$5.1 million, or 16%, over 1996). Wireless revenue in 1998 totaled \$13.2 million, an increase of \$1.5 million, or 13% over 1997 (\$4.0 million, or 43%, over 1996). Directory assistance revenue in 1998 totaled \$12.9 million, an increase of \$2.4 million, or 23% over 1997 (\$6.5 million, or 102%, over 1996).

Wireline communications revenues include telephone revenues, fiber optic network usage, internet access, competitive local telephone, long distance and wireline cable revenues. Telephone revenues, which include local service, access and toll service, directory advertising and calling feature revenues were \$30.5 million, an increase of \$1.7 million, or 6% over 1997 (\$1.4 million, or 5% increase in 1997 over 1996). These increases were primarily due to growth in access lines of 3% and 4% in 1998 and 1997, respectively, and revenue growth from custom calling features of 19% and 28%, respectively. Revenues from fiber optic network usage, which includes internet services, were \$5.4 million, an increase of \$1.4 million, or 36%, over 1997 (\$0.4 million, or 11% increase in 1997 over 1996) due to expanded network usage and growth of over 80% in our internet customer base. Expanded services in 1998 included competitive local telephone service and long distance which generated \$0.8 million in revenue for 1998. Wireline cable revenues have remained relatively constant from 1996 through 1998, with only a \$0.1 million increase during this two-year period.

Wireless communications include cellular, paging, voicemail and wireless cable. Revenues for cellular, paging and voicemail totaled \$10.2 million, an increase of \$1.6 million, or 19%, over 1997 (\$1.8 million, or 26%, in 1997 over 1996). Increases result primarily from cellular access, toll, and roaming associated with 28% customer growth over 1997 (33% in 1997 over 1996) and increased outside roaming traffic. Wireless cable revenues of \$3.0 million decreased 5% from 1997 but increased 24% compared to 1996. The decline in 1998 revenue is due to limiting marketing efforts and installations to multiple-dwelling units in an effort to contain costs and capital in this business section. This revenue stream pertains primarily to video services. The Company realized less than \$0.1 million of revenues from the high-speed wireless internet, introduced in one geographic market in 1998.

Directory assistance revenues, which includes net revenues from providing directory listings for customers seeking telephone numbers in the mid-Atlantic states, were \$12.9 million, an increase of \$2.4 million, or 23% over 1997 (\$4.1 million, or 65% increase, in 1997 over 1996). During the first half of 1997, the Company commenced directory assistance services to AT&T customers seeking telephone numbers in New Jersey and Delaware. During August through October 1997, the Company expanded this service to encompass Pennsylvania. These expansions, which only had a partial year impact in the prior year, produced an additional 12.6 million of call volume in 1998 over 1997.

Other communications revenues, which include revenues from the Company's sale and lease of communications equipment and security alarm monitoring and installation, and rental for property and equipment primarily to the PCS Alliances were \$2.9 million, an increase of \$0.7 million, or 30% over 1997 (\$0.4 million, or 22% in 1997 over 1996) due primarily to services provided to the Alliances.

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**OPERATING EXPENSES** - Total operating expenses were \$44.0 million, an increase of \$4.5 million, or 11% over 1997 (\$5.1 million, or 15%, increase in 1997 over 1996). The introduction of competitive local telephone services and long distance and the resulting start-up related costs, coupled with the growth of internet and the related commitment towards that infrastructure, accounted for \$2.0 million of the 1998 increase. Additionally, costs associated with increased directory assistance calling volume accounted for \$1.1 million of the 1998 increase due to the annualized revenue from 1997 contract expansions and commencement of national directory assistance services. Finally, growth in cellular customers contributed an additional \$1.1 million in operating expenses in 1998 over 1997. The increase in 1997 over 1996 was primarily attributable to

directory assistance contract expansions (\$3.9 million) and growth in cellular and wireless cable customers (\$1.5 million). These increases in 1998 over 1997 trailed total revenue growth resulting in a 2% margin improvement indicating a leveraging of fixed costs and a continued focus on cost containment and operating efficiencies.

Maintenance and support expenses, which include costs related to specific property and equipment, as well as indirect costs such as general engineering and general administration of property and equipment, increased \$1.2 million or 12%, over 1997. This increase was primarily a result of increased costs associated with customer growth and service enhancements for the underlying network and support systems. Maintenance and support expenses for 1997 increased \$0.1 million, or 1%, over 1996 which was a result of the Company controlling expenses by acquiring access and other network pricing decreases coupled with more efficient utilization of our facilities and equipment infrastructure.

Depreciation and amortization expenses in 1998 increased \$1.3 million, or 14% over 1997 and \$0.8 million, or 9% in 1997 over 1996. The increase in 1998 and 1997 was a result of capital outlays to support continued business expansion primarily in our wireless operations and directory assistance.

Customer operations expenses, which included marketing, product management, product advertising, sales, publication of a regional telephone directory, customer services and directory services, increased \$1.9 million, or 14% over 1997 and \$3.1 million, or 28%, in 1997 over 1996. Approximately \$1.0 million of these 1998 increases relate to the directory assistance business that added personnel throughout 1997 to handle the calling volume from new contracts. The fact that personnel hired to support this expansion were in place for a partial year in 1997 but the full year of 1998 caused year over year expense growth. Additionally, the Company has invested resources in customer service related functions and sales and marketing related costs in order to support our growth businesses and expansion plans, a significant portion (\$0.9 million) of which relates to competitive telephone service, long distance, internet and communications systems sales and support. The 1997 increase over 1996 was primarily attributable to the directory assistance expansion during 1997.

Corporate operations expenses, which include taxes other than income, executive, accounting, legal, purchasing, information management, human resources and other general and administrative expenses, remained constant in 1998 and increased \$1.0 million, or 19% in 1997 over 1996. The increase in 1997 relates primarily to internal infrastructure growth necessary to support the overall growth of the Company.

OTHER INCOME (EXPENSES) - Other income (expenses) which includes interest expense, dividend and interest income, equity income from wireless investees, equity loss from PCS investees, gain on sale of investment and loss on write-down of investment, decreased \$8.6 million from 1997 but increased \$0.9 million in 1997 over 1996.

Other expenses, principally interest, decreased \$0.4 million, or 36% from 1997 and \$0.1 million, or 10% in 1997 from 1996. The reduction in interest expense in 1998 and 1997 is primarily a result of the liquidation of mortgaged-backed securities used to satisfy cash flow needs in lieu of additional debt, and lower interest rates on line of credit debt facilities offset by an increase in investing activity (see Statement of Cash Flows). The Company capitalized interest on property under construction and the investments in PCS alliances of \$0.8 million in 1998 and in 1997. As a result of the VA Alliance commencing operations during the fourth quarter of 1997 and the commencement of operations of the WV Alliance in mid-year 1998, the Company expects the capitalization of interest costs to be reduced during 1999.

Interest and dividend income was down \$0.2 million, or 62% from 1997 and \$0.3 million, or 52% in 1997 from 1996, due to the liquidation of mortgage-backed securities to support the continued growth in customer base and business expansion.

Equity income from other wireless investees, which includes equity earnings from the Company's cellular partnership interests increased \$0.1 million, or 167% over 1997 and decreased \$0.4 million, or 84% in 1997 from 1996. The decrease in 1997 is principally due to the sale of the Company's 30% limited interest in the Roanoke MSA cellular partnership to GTE in April 1997 (Note 3).

Equity loss from PCS investees totaled \$6.5 million for 1998. The Company has a 21% common ownership interest in the VA Alliance, a provider of PCS serving a 1.6 million populated area in central and western Virginia, that commenced operations in the fourth quarter of 1997. The Company also has a 45% common ownership interest in the WV Alliance, an owner of PCS radio spectrum licenses for most of West Virginia and parts of eastern Kentucky, southwestern

Virginia and eastern Ohio. The WV Alliance commenced operations in late 1998. Accordingly, management believes that the Company's share of losses to be recognized in 1999 will increase over 1998 loss levels due to the full year of operations for the WV Alliance.

The Company recognized a \$5.1 million gain on the sale of its 30% limited ownership interest in the Roanoke MSA Cellular Partnership to GTE Wireless in April 1997 (Note 3).

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The Company recognized a \$1.0 and \$2.8 million impairment loss on its investment in American Telecasting, Inc. (ATEL) at December 31, 1998 and 1997, respectively. The Company concluded that the decline in value was other than temporary given recent trading prices in the common stock and ATEL's financial condition and continued financial losses.

**INCOME TAXES** - Income taxes decreased \$1.8 million, or 24% from 1997 and increased \$2.2 million, or 43%, in 1997 from 1996. The 1998 decrease was attributable to a number of factors, the most significant of which was the recognition of approximately \$6.5 million in losses sustained by our PCS investees compared to only \$0.8 in 1997. These losses generated an increased tax benefit to the Company of approximately \$2.2 million. Additionally, the Company recognized a one-time increase to tax expense of \$2.0 million related to a gain on an investment sale in 1997 (discussed further below). The 1998 tax reductions were offset by approximately \$1.2 million of income taxes recognized by the \$3.2 million increase in taxable income from operations. The 1997 increase was due to an increase in taxable income from operations, \$2.0 million of taxes from the gain on the sale of the Roanoke MSA cellular partnership, offset partially by a \$1.1 million tax benefit from the write-down of the Company's investment in ATEL. The effective rate was 40%, 38%, and 35% in 1998, 1997 and 1996, respectively.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its working capital requirements and capital expenditures from net cash provided from operating activities and borrowings under committed credit facilities. The Company has \$22.1 million in unused aggregate borrowings available under its existing credit facilities.

During 1998, net cash provided by operating activities was \$33.9 million. Principle changes in operating assets and liabilities included a \$0.9 million increase in current assets, excluding cash and receivable from affiliates, and a \$2.3 million increase in current liabilities. Current assets increased in 1998 primarily due to the income tax receivable versus an income tax liability in 1997 and current liabilities increased \$2.3 million due to timing of payments offset by other accrued liabilities reduction of \$0.5 million. The Company's investing activities included the investment of \$16.7 million in property and equipment, \$5.0 million in net advances to PCS Alliances, \$2.3 million investment in PCS Alliances, \$1.0 million investment in Listing Services Solutions, Inc., \$0.7 investment in PCS licenses, and proceeds of \$1.0 from the liquidation of mortgaged-backed securities. Net cash used in financing aggregated \$10.4 million, which includes \$5.7 million used to pay dividends and an aggregate of \$4.8 million of payments on long-term debt.

The Company had firm cash commitments relating to purchases of property and equipment of approximately \$6 million as of December 31, 1998. Capital expenditures for 1999, including these commitments, are expected to increase significantly over 1998 levels to support expansion of competitive local telephone and internal access services, build-out of 500 miles of fiber optic cable, and the addition of a third directory assistance calling center. Funds required for dividends, capital expenditures, interest and debt principal payments, and partnership contributions are expected to be provided from internal sources and borrowings drawn against available credit facilities. The Company has entered into certain guarantee agreements relating to its investment in the VA Alliance and WV Alliance (Note 3) and expects to increase its guarantee levels and equity contributions in the Alliances to support continued PCS network build-out and expansion. Management anticipates that funds required for additional capital contributions to the VA Alliance and WV Alliance (Note 3) will be provided from increased cash flow resulting from lower estimated tax payments due to the Company recognizing its proportionate share of the tax losses generated by the VA Alliance and WV Alliance, both limited liability

companies, cash flows from operations and borrowings under existing lines of credit.

#### IMPACT OF YEAR 2000

The year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

The Company has addressed this issue with a plan which is centered around several key components: (1) system inventory, (2) third party confirmation, (3) internal systems review, (4) compliance implementation, (5) testing and (6) contingency planning. Regarding the first component, the Company completed a comprehensive inventory of all its systems (hardware and software) in July 1998. At the same time, formal communication, through a confirmation process, was initiated with all of the Company's significant suppliers and large customers to determine the extent to which the Company's interface systems are vulnerable to those third parties' failure to resolve their own year 2000 issues. The Company has received responses from approximately two-thirds of the confirmations sent and continues to follow-up on non-responses and instances where potential issues were noted. Regarding the third component, the Company has completed a comprehensive review of its computer systems to identify the internal systems that could be impacted by the year 2000 issue. Based on findings from this review, the Company has developed an implementation plan to resolve potential issues and is in the early to middle stages of implementing such a plan. Both the second and third components were further broken down by category of system (network

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systems, information technology systems and other supporting systems). Significant focal areas are the Company's network/ switching related equipment and the corporate billing, customer provisioning and accounting systems. The final components are testing and contingency planning. Testing, where feasible, spans both the internal systems and systems interface with third parties. Contingency planning is necessary in the event that conversion efforts, customer compliance or any other conditions arise that prevent planned critical application upgrades. The entire year 2000 project has a targeted completion date of June 1, 1999. Completion of this project includes planned testing of each major exposure area to ensure compliance. Although no significant plan changes are anticipated, implementation of any contingency plan, should it be necessary, may affect the project's completion date and cost.

Based on its findings and assessment to date, the Company is or will be performing certain planned telephone switching software upgrades and computer software and system upgrades, which are being performed primarily to better meet the business and growth needs of the Company. The total year 2000 project cost estimates are not expected to be material to the Company's business operations or financial condition. The Company will continue to review and update this estimate over the duration of the project.

As mentioned above, the Company expects its year 2000 program to be completed by June 1, 1999. It should be noted that the Company plans to devote the resources required to resolve any significant year 2000 issues. However, if the planned modifications and upgrades are not made, or are not completed on a timely basis, and contingency plans were to falter, the year 2000 issue could have a material impact on the operations of the Company. Also, there can be no assurance that the systems of other companies on which the Company's systems rely will be timely converted or that any such failure to convert by another company would not have an adverse effect on the Company's systems or costs of upgrades. The material impact on the operations of the Company could include, but not be limited to, interruption of telecommunications services, interruption, error or failure of the Company's customer care services, including customer billing, and failures of the Company's other information systems and other date-sensitive equipment. Such failures could result in substantial customer claims as well as lost revenue due to service interruption, significant delays in the billing process and increased expense associated with

stabilizing operations following such failures.

The costs of the program and estimated completion date are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, compliance by third parties which interact with the Company's systems, the ability to locate and correct all relevant computer codes and similar uncertainties.

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## Quarterly Review

&lt;TABLE&gt;

&lt;CAPTION&gt;

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Q
<S>	<C>	<C>	<C>
1998			
Operating revenues	\$ 16,235	\$ 16,551	\$ 17
Operating cash flows (a)	8,041	8,199	8
Operating income	5,547	5,712	5
Loss on write-down of investment	(270)	-	-
Equity loss from PCS investees	(896)	(1,346)	(1
Net income	2,450	2,468	2
Net income per share - basic	0.189	0.190	0
Net income per share - diluted	0.187	0.188	0
Stock price range	\$27.00-20.75	\$27.50-22.75	\$24.25-2
Quarterly dividend	\$ 0.10875	\$ 0.10875	\$ 0.1
1997			
Operating revenues	\$ 13,466	\$ 14,503	\$ 15
Operating cash flows (a)	6,673	6,838	7
Operating income	4,486	4,607	5
Gain on sale of investment	-	5,077	-
Loss on write-down of investment	-	-	-
Equity loss from PCS investees	-	-	-
Net income	2,480	5,905	2
Net income per share - basic	0.191	0.453	0
Net income per share - diluted	0.190	0.452	0
Stock price range	\$22.25-18.25	\$19.50-16.62	\$22.50-1
Quarterly dividend	\$ 0.103	\$ 0.103	\$ 0

&lt;/TABLE&gt;

(a) Operating income before depreciation and amortization. See Management's Discussion and Analysis for additional factors to consider in using this measure.

- - Fourth quarter 1997 includes equity loss from investment in PCS Alliances (Note 3), which commenced operations during the fourth quarter, of \$0.8 million (\$0.5 million after-tax or \$0.04 per share). These losses totaled \$6.5 million (\$4.0 million after-tax or \$0.30 per share) for the year ended December 31, 1998 (Note 3).
- - Fourth quarter 1997 includes a loss on write-down of the investment in American Telecasting, Inc. (Note 4) of \$2.8 million (\$1.7 million after-tax or \$0.13 per share). Further write-downs of this investment totalled \$1.0 million (\$0.6 million after-tax or \$0.05 per share) for the year ended December 31, 1998.
- - Second quarter 1997 includes gain on the sale of investment in the Roanoke

MSA Cellular Partnership (Note 3) of \$5.1 million (\$3.1 million after-tax or \$0.24 per share).

Selected Financial Data and Five Year Growth Comparison

<TABLE>

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(Dollars in thousands, except per share amounts)	1998	1997	1996	
<S>	<C>	<C>	<C>	<
Operating revenues	\$ 66,686	\$ 59,010	\$ 49,948	\$
Operating expenses	44,060	39,598	34,533	
Income taxes	5,639	7,399	5,163	
Gain on sale of investments	-	5,077	-	
Loss on write-down of investment	(1,010)	(2,808)	-	
Net income	8,508	12,221	9,550	
Earnings per share - diluted	0.65	0.94	0.73	
Cash dividends per share	0.435	0.412	0.392	
Total assets	155,025	148,448	142,400	
Long-term debt	19,774	24,606	24,000	
Retirement benefits other than pensions	9,317	8,432	7,724	
Investment in property and equipment	\$153,621	\$137,703	\$127,196	
Average number of common shares outstanding - diluted	13,093,561	13,055,814	13,056,081	12
Number of employees	743	567	454	
Number of shareholders	2,998	2,884	2,883	

</TABLE>

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<PAGE>

Board of Directors

<TABLE>

<CAPTION>

<S>	<C>	<C>
C. Phillip Barger Retired Chairman E. W. Barger & Company T/A Barger Insurance Network	John B. Mitchell, Sr. President & Chairman Hammond-Mitchell, Inc.	Carl A. Rosb Senior Vice Chief Operat CFW Communic
William Wayt Gibbs, V President Comprehensive Computer Consultants	John N. Neff President and Chief Executive Officer Nielsen Builders, Inc.	Robert S. Ye Chairman of CFW Communic
C. Wilson McNeely, III Chairman Eagle Corporation	James S. Quarforth President and Chief Executive Officer CFW Communications	

Executive Officers

J. William Brownlee Vice President - Virginia Operations	David R. Maccarelli Senior Vice President - Engineering and Carrier Services	James S. Quar President and Chief Executi
Warren C. Catlett Vice President - Strategy and Business Development	Michael B. Moneymaker Vice President and Chief Financial Officer, Treasurer and Secretary	Carl A. Rosbe Senior Vice P Chief Operati
David E. Lowe President - West Virginia Operations	Don Marie Persing Vice President - Human Resources	Robert S. Yea Chairman of t Walter M. Zir

President -  
Virginia Oper

</TABLE>

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#### Annual Meeting

The Board of Directors extends to the shareholders a cordial invitation to attend the Annual Meeting of Shareholders, at the Holiday Inn next to Route 275 and I-81, north of Staunton, Virginia, on Tuesday, April 27, 1999, at 10:00am.

#### Corporate Office

401 Spring Lane  
Suite 300  
PO Box 1990  
Waynesboro, Virginia 22980  
540-946-3500

#### Web Page

<http://www.cfw.com> or [www.intelos.com](http://www.intelos.com)

#### Stock Updates

For updates on CFW stock prices call 800-946-8227, or dial locally 946-5144. CFW is publically traded on The NASDAQ Stock Market under the symbol CFWC.

#### Shareholder Services

For shareholder services, including information on the Company's Dividend Reinvestment and Stock Purchase Plan, please call 1-888-221-4239.

All trademarks are the property of their respective owners.

<PAGE>

CFW COMMUNICATIONS COMPANY  
POST OFFICE BOX 1990  
WAYNESBORO, VIRGINIA 22980  
540-946-3500

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#### Exhibit 21

The Company has as its wholly-owned subsidiaries, CFW Telephone Inc., CFW Network Inc., CFW Wireless Inc., CFW Cable Inc., CFW Cable of Virginia Inc., CFW Communications Services Inc., CFW Licenses Inc., CFW Information Services Inc. and CFW PCS Inc., which are incorporated in Virginia and are included in the consolidated financial statements of the Company. CFW Wireless Inc. is the managing partner of Virginia RSA6 Cellular Limited Partnership and Virginia RSA6 Resale Limited Partnership, in each of which it owns an 84% interest. These partnerships are also included in the consolidated financial statements of the Company.

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Exhibit 23

# CONSENT OF INDEPENDENT AUDITORS

As independent auditors, we hereby consent to the incorporation of our report, dated February 12, 1999, incorporated by reference in this annual report of CFW Communications Company on Form 10-K, into the Company's previously filed Form S-8 Registration Statements File Nos. 2-65364, 33-31361, 33-45650 and 33-55745, 333-40751, 333-40753 and 333-45593 and Form S-3 Registration Statement No. 333-17945.

/s/ McGladrey & Pullen, LLP

Richmond, Virginia  
 March 30, 1999

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 <DESCRIPTION>VIRGINIA PCS ALLIANCE, L.C. FINANCIAL STATEMENT  
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# VIRGINIA PCS ALLIANCE, L.C.

## FINANCIAL STATEMENTS

December 31, 1998

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FINANCIAL STATEMENTS	
Balance sheets	2 - 3
Statements of operations	4
Statements of members' equity (deficit)	5
Statements of cash flows	6 - 7
Notes to financial statements	8 - 12

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## INDEPENDENT AUDITOR'S REPORT

To the Management Committee  
Virginia PCS Alliance, L.C.  
Waynesboro, Virginia

We have audited the accompanying balance sheets of Virginia PCS Alliance, L.C. as of December 31, 1998 and 1997, and the related statements of operations, members' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia PCS Alliance, L.C. as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ McGladrey & Pullen, LLP

Richmond, Virginia  
February 12, 1999

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VIRGINIA PCS ALLIANCE, L.C.

BALANCE SHEETS  
December 31, 1998 and 1997  
<TABLE>  
<CAPTION>  
ASSETS (Note 2)

	1998
<S>	<C>
Current Assets	
Cash and cash equivalents	\$ 5
Accounts receivable, net of allowance of \$194,958 in 1998	94
Inventories	2,27
Prepaid expenses	37
	-----
Total current assets	3,64
	-----
Subordinated Capital Certificates	3,83
	-----
Property and Equipment	
Land and building	1,22
Network plant and equipment	63,31
Furniture, fixtures, and other equipment	4,05
Radio spectrum licenses	32,71
	-----
Total in service	101,30

Under construction	2,56
	-----
	103,86
Less accumulated depreciation	7,25
	-----
	96,61
	-----
Other Assets	
Radio spectrum licenses	
Other	21
	-----
	21
	-----
	\$ 104,31
	=====

&lt;/TABLE&gt;

See Notes to Financial Statements.

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&lt;TABLE&gt;

&lt;CAPTION&gt;

## LIABILITIES AND MEMBERS' EQUITY (DEFICIT)

	1998
-----	-----
<S>	<C>
Current Liabilities	
Accounts payable	\$ 2,39
Due to affiliates (Note 6)	2,26
Dividends payable (Note 3)	22
Customer deposits	5
Advance billings	7
Accrued construction costs	6,04
Accrued interest	72
Accrued payroll	15
Accrued taxes	3
Other accrued liabilities	2
	-----
Total current liabilities	11,99
	-----
Long-Term Debt (Note 2)	90,30
	-----
Redeemable Series A Preferred Membership Interests (Note 3)	14,34
	-----
Commitments (Note 5)	
Members' Equity (Deficit) (Note 4)	
Series B preferred membership interests	10,86
Common membership interests	(23,18)
	-----
	(12,32)
	-----
	\$ 104,31
	=====

&lt;/TABLE&gt;

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VIRGINIA PCS ALLIANCE, L.C.

## STATEMENTS OF OPERATIONS

Years Ended December 31, 1998 and 1997

&lt;TABLE&gt;

&lt;CAPTION&gt;

	199
<S>	<C>
Operating revenues:	
Subscriber revenue	\$ 1
Wholesale revenue	2
Equipment sales	
	-----
	4
	-----
Operating expenses:	
Cost of goods sold	3
Maintenance and support	5
Depreciation and amortization	7
Customer operations	5
Corporate operations	2
	-----
	23
	-----
Loss before interest and preferred dividends	(18)
Interest expense:	
Senior credit facility	4
Redeemable preferred interest	1
	-----
Net loss	\$ (24)
	=====

&lt;/TABLE&gt;

See Notes to Financial Statements.

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VIRGINIA PCS ALLIANCE, L.C.

## STATEMENTS OF MEMBERS' EQUITY (DEFICIT)

Years Ended December 31, 1998 and 1997

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Series B Preferred Membership Interests	Common Member Interests
<S>	<C>	<C>
Balance as of December 31, 1996	\$ 7,820,000	\$ 3,6
Capital contributions	-	1,6
Issuance costs	-	(
Conversion of Common Membership Interests to Series B Preferred Membership Interests	500,000	(5

Net loss		(3,9
Balance as of December 31, 1997	8,320,000	7
Capital contributions	2,540,376	4
Net loss	-	(24,4
Balance as of December 31, 1998	\$ 10,860,376	\$ (23,1

See Notes to Financial Statements.

</TABLE>

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VIRGINIA PCS ALLIANCE, L.C.

#### STATEMENTS OF CASH FLOWS

Years Ended December 31, 1998 and 1997

<TABLE>

<CAPTION>

	19
<S>	<C>
Cash Flows From Operating Activities	
Net loss	\$ (24
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	6
Amortization	
Changes in assets and liabilities:	
(Increase) in:	
Accounts receivable	
Inventories	(1
Prepaid expenses	
Increase (decrease) in:	
Accounts payable, trade	(4
Advance billings and customer deposits	
Accrued interest	
Accrued dividends on Series A Preferred Membership Interests	
Other accrued liabilities	
Net cash used in operating activities	(22
Cash Flows From Investing Activities	
Purchase of property and equipment	(34
Purchase of radio spectrum licenses	
Increase in deferred charges	
Net cash used in investing activities	(34
Cash Flows From Financing Activities	
Capital contributions, net	3
Advances from affiliates	1
Borrowings on revolving credit agreements, net	52
Proceeds from long-term borrowings	
Net cash provided by financing activities	57
Net decrease in cash	
Cash:	
Beginning	
Ending	\$

(Continued)

&lt;/TABLE&gt;

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VIRGINIA PCS ALLIANCE, L.C.

STATEMENTS OF CASH FLOWS (Continued )  
Years Ended December 31, 1998 and 1997

&lt;TABLE&gt;

&lt;CAPTION&gt;

	199
-----	
<S>	<C>
Supplemental Schedule of Noncash Investing and Financing Activities	
Noncash increases in radio spectrum licenses consisting primarily of accrued interest	\$ =====
Noncash increases in property and equipment consisting primarily of accrued construction costs, accounts payable, accrued dividends, and capitalization of other intangible costs	\$ 6 =====
Subordinated capital certificates acquired by long-term borrowings	\$ 2 =====
Conversion of Common Membership Interests to Series B Preferred Membership Interests	\$ =====
Supplemental Disclosure of Cash Flow Information	
Cash payments for interest	\$ 4 =====
Cash payments for redeemable preferred interest	\$ 1 =====

&lt;/TABLE&gt;

See Notes to Financial Statements.

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VIRGINIA PCS ALLIANCE, L.C.

## NOTES TO FINANCIAL STATEMENTS

-----  
Note 1. Significant Accounting Policies

The Virginia PCS Alliance, L.C. ("Alliance") was organized in 1994 pursuant to the provisions of the Virginia Limited Liability Company Act. The Alliance was formed to fund, establish and operate a business to design, construct, own, operate and maintain a personal communications system to provide personal communications services ("PCS") in central and western Virginia. Operations commenced during September 1997, prior to which the Alliance was in the development stage. Its major activities through September 1997 were limited to acquiring PCS radio spectrum licenses, designing and constructing a personal communications system and obtaining equity capital.

CFW Wireless Inc., a wholly-owned subsidiary of CFW Communications Company, is

responsible for managing and operating the Alliance pursuant to the terms and conditions of the service agreement and within the framework of the approved operating and capital business plan.

The following is a summary of the Alliance's significant accounting policies:

**Accounting estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents:** The Alliance considers all highly liquid cash investments with a purchased maturity of three months or less to be cash equivalents. At times such investments may be in excess of federally-insured amounts.

**Inventories:** Inventories include PCS telephone equipment held for sale and are stated at the lower of average cost or market.

**Property and equipment:** Property and equipment is stated at cost and depreciated using the straight-line method over their estimated useful lives. Buildings are depreciated over a 50 year life. Network plant and equipment are depreciated over various lives ranging from 5 to 17 years, with an average life of approximately 10 years for the category. Furniture, fixtures and other equipment are depreciated over various lives ranging from 3 to 24 years. Radio spectrum licenses, which are for areas where the licenses are being used in operations, are amortized over a life of 40 years. The Alliance includes radio spectrum licenses in other assets until such licenses are placed in service. Assets under construction represent costs incurred for the construction of cell sites, including allocated overhead costs.

**Revenue recognition:** The Alliance earns revenue by providing access to and usage of its personal communications network. Local service and airtime revenues are recognized as services are provided. Wholesale revenues are earned by providing switch access and other switching services, including roamer management, to other wireless carriers. Wholesale prices are based on actual annual fixed and variable costs. Other revenues for equipment sales are recognized at the point of sale. Handset equipment is sold at prices below cost. Prices are based on the service contract period. The Alliance recognizes the entire cost of the handsets at the point of sale, rather than deferring such costs over the service contract period.

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VIRGINIA PCS ALLIANCE, L.C.

#### NOTES TO FINANCIAL STATEMENTS

-----

##### Note 1. Significant Accounting Policies (Continued)

**Fair value of financial instruments:** The fair values of financial instruments recorded on the balance sheets are not significantly different than the carrying amounts.

**Income taxes:** The Alliance is treated as a partnership for income tax purposes. The Internal Revenue Code and applicable state statutes provide that income and expenses of a partnership are not separately taxable, but rather accrue directly to the members as provided by agreement. Accordingly, no provision for federal or state income taxes has been made in the financial statements.

**Financial statement classifications:** Certain amounts on the 1997 financial statements have been reclassified, with no effect on net loss or members'



equity (deficit) to conform with classifications adopted in 1998.

## Note 2. Long-Term Debt

Long-term debt consists of the following as of December 31:

	1998	1997
Vendor Supported Loan	\$ 71,139,502	\$ 21,461,313
Supplemental Loan	5,627,763	
Line of Credit	2,154,719	1,881,695
U. S. Department of the Treasury, FCC	11,154,374	11,154,374
Other	225,000	225,000
	<u>\$ 90,301,358</u>	<u>\$ 34,722,382</u>

In September 1996, the Alliance entered into two 7.00% installment notes with the Federal Communications Commission ("FCC") related to licenses awarded in the PCS radio spectrum Block "C" auction. Interest only is payable quarterly through September 30, 2002. Commencing December 31, 2002, principal and interest is payable in equal quarterly installments of \$805,341 through June 30, 2006. The entire unpaid principal amount, together with accrued and unpaid interest, is due September 17, 2006 ("Maturity Date").

In July 1997, the Alliance entered into an \$89.0 million Senior Secured Credit Facility with the Rural Telephone Financing Cooperative ("RTFC" or "Lender") and Motorola, Inc. ("Vendor"). The available facilities consist of a 10-year term loan ("Vendor Supported Loan") in the amount of \$75.0 million, a 10-year term loan ("Supplemental Loan") in the amount of \$10.0 million, and a 5-year revolving line of credit loan ("Line of Credit") in the amount of \$4.0 million.

The Vendor Supported Loan is to finance up to \$71.25 million of Motorola supplied PCS equipment and engineering services, nonvendor related capital expenditures, microwave relocation expenses and working capital, and to purchase up to \$3.75 million of RTFC subordinated capital certificates ("SCCs"). The Supplemental Loan is to finance up to \$9.5 million of nongovernment-funded PCS license costs, microwave relocation expenses, non-Motorola related capital expenditures and working capital, and to purchase up to \$0.5 million of RTFC SCCs.

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VIRGINIA PCS ALLIANCE, L.C.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Long-Term Debt (Continued)

The RTFC SCCs are nonmarketable securities and are stated at historical cost. As the RTFC loans are repaid, the SCCs will be refunded through a cash payment to maintain a 5% SCCs-to-outstanding loan balance ratio.

Interest only is payable through four years for the Vendor Supported and Supplemental Loans. After this time, principal is payable in equal quarterly installments, plus accrued interest, with 10% of the principal due in year five, 15% due per year in years six and seven, and 20% due per year in years eight through ten.

As borrowings occur, the Alliance can choose between several fixed and variable rate interest options. The variable interest rate in effect on the nonfixed portions of the Vendor Supported and Supplemental Loans at December 31, 1998 and 1997 was 6.60% and 7.15%, respectively. In January 1998, the Alliance converted \$15.0 million of the Vendor Supported Loan to a fixed rate of 7.25%. This rate is in effect until January 2003, at which time the loan will revert to the

variable rate. In September 1998, the Alliance converted \$27.0 million of the Vendor Supported Loan to a fixed rate of 6.55%. This rate is in effect until September 2001, at which time the loan will revert to the variable rate.

The credit facility includes a line of credit to supplement the Alliance's general short-term cash requirements. Under this agreement, the Alliance is required to reduce its outstanding balance to zero each year for a period of at least five consecutive business days. The interest rate on the Line of Credit is the RTFC's standard monthly quoted line of credit rate plus 0.5%. The interest rate in effect on the Line of Credit at December 31, 1998 and 1997 was 7.20% and 7.75%, respectively.

All of the Alliance's present and future assets are pledged as security for the RTFC loans. In addition, each member of the Alliance has entered into an irrevocable unsecured pro rata guaranty with the RTFC for up to \$36.5 million in the aggregate. As additional credit support for the Vendor Supported Loan, Motorola has entered into a guaranty agreement with the RTFC for up to \$52.5 million of the Alliance's outstanding indebtedness under the Vendor Supported Loan.

The loan agreements contain various restrictive covenants, including negative covenants, related to additional indebtedness, payment of dividends, redemption of membership interests and payment of management fees. The agreements also contain financial covenants related to cash flows, population coverage and number of subscribers.

There are no long-term debt maturities for 1999 and 2000. Maturities for 2001, 2002 and 2003 are \$3,838,363, \$10,206,048, and \$14,089,138, respectively. Interest costs in 1998 were approximately \$4.5 million of which \$4.1 million was expensed and \$0.4 million was capitalized. Interest costs in 1997 were approximately \$1.1 million of which \$0.2 million was expensed and \$0.9 million was capitalized.

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VIRGINIA PCS ALLIANCE, L.C.

#### NOTES TO FINANCIAL STATEMENTS

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##### Note 3. Series A Preferred Membership Interests

The Series A Preferred Membership Interests consists of 1,294,000 units issued on December 30, 1996 at \$10.00 per unit (stated value). Total proceeds were \$12,940,000 before issuance costs. These units are entitled to cumulative, but not compounded, cash distributions at 8.5% per annum. This amount is payable quarterly for five years from the date contributed, at which time a "true up" amount is payable for the difference between an amount computed based on a 14% compounded annualized rate of return and the cumulative amount described above at 8.5%. At December 31, 1998 and 1997, accrued current dividends were approximately \$229,000 for each date and accrued "true up" dividends were approximately \$1,501,000 and \$730,000, respectively. Accrued "true up" dividends are included on the balance sheet with "Redeemable Series A Preferred Membership Interests."

At any time after the fifth anniversary of the capital contribution date, each Series A Preferred Member may put all, but not less than all, of its Preferred Series A Membership Interest to the Alliance in exchange for cash equivalent to the stated value, plus any accrued distributions. If such put takes place, additional Common Membership Interests may be acquired at \$10.00 per unit for 88.1% of the put amount by CFW Communications Company and for 11.9% of the put amount by R&B Communications, Inc., both Common Members.

For any Series A Preferred Membership Interests not put to the Alliance as of the fifth anniversary date as well as any "true up" amounts due, the annual cash distribution rate will be changed to the lesser of 7% or LIBOR plus 1-1/2%,

payable quarterly. After ten years from the Series A capital contribution date, the Alliance may redeem at any time, any or all of the Series A Preferred Membership Interests still outstanding, at the Stated Value plus any accrued distributions.

#### Note 4. Members' Equity (Deficit)

Members' equity (deficit) consists of the following classes of membership interests:

Series B Preferred Membership Interests: This consists of 782,000 units issued on September 30, 1996 at \$10.00 per unit (stated value), 50,000 units converted from Common Units on August 27, 1997 at \$10.00 per unit (stated value), and 115,471.6 units issued on January 6, 1998 at \$22.00 per unit (stated value). Dividends are payable beginning after the tenth year from the capital contribution date at 8% per annum, payable quarterly and are cumulative, but not compounded. After the fourth year from the capital contribution date, the Series B units are convertible into Common Membership Interests on a unit-for-unit basis.

Common Membership Interests: Common membership interests consist of approximately 406,000 Common Units. Additional future cash contributions may be required from the Common Members on the same terms and conditions of their initial Capital Contribution. If any Common Member fails to make the additional contributions, their existing capital account balance may be redeemed at 25% and amounts forfeited would be allocated among the remaining Common Members.

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VIRGINIA PCS ALLIANCE, L.C.

#### NOTES TO FINANCIAL STATEMENTS

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#### Note 4. Members' Equity (Deficit) (Continued)

Equity Subscriptions: The members entered into equity subscription agreements that obligates them to contribute additional equity of \$15.0 million in the aggregate. The remaining additional equity contributions are scheduled to be contributed equally over three years beginning in January 1999. Such contributions shall be for the purchase, at fair market value, of Common Membership or Series B Preferred Membership units.

In January 1999, the members contributed \$5.0 million to the Alliance, purchasing 34,820 Common Units for \$0.8 million and 192,452.7 Series B Preferred Membership Units for approximately \$4.2 million.

#### Note 5. Commitments

Leases: The Alliance leases property for cell site locations and retail stores. Leases for cell site locations vary in term from five to twenty years. Leases for retail store locations vary in term from three to five years. Certain cell site location leases have been prepaid and are being amortized on a straight-line basis over the total lease term. Total annual lease expense for the years ended December 31, 1998 and 1997 was approximately \$1,169,000 and \$212,000, respectively. The total amount committed under these lease agreements is \$945,437 in 1999, \$938,935 in 2000, \$902,654 in 2001, \$685,788 in 2002, \$329,139 in 2003 and \$1,960,106 for the years thereafter.

Equipment: The Alliance had outstanding purchase commitments of approximately \$6.0 million at December 31, 1998.

#### Note 6. Related Party Transactions

All transactions of the Alliance are administered by the managing partner. CFW Wireless, a subsidiary of CFW Communications Company provided, in accordance with the service contract, engineering, construction, sales management, billing, and other general and administrative services to the Alliance in the amount of \$2,012,684 in 1998 and \$1,757,204 in 1997. Of the total 1998 charges, \$1,682,125 (\$815,899 in 1997) was expensed and \$330,559 (\$941,305 in 1997) was capitalized. CFW Communications Company also provided certain corporate services for the Alliance in the amount of \$2,313,062 in 1998 and \$336,650 in 1997. In 1998, all corporate services were expensed. Of the total 1997 charges, \$161,281 was expensed and \$175,369 was capitalized during the construction and startup period. Corporate services include executive, finance, accounting, customer care, human resources, information management and marketing services. Such services are charged to the Alliance at cost. In addition, the managing partner advances funds to the Alliance to cover expenditures incurred. These advances are included in due to affiliates in the accompanying balance sheets.

Switch access and switching services are provided at cost to the West Virginia PCS Alliance L.C. and the Virginia RSA6 Cellular Limited Partnership, both affiliated through common ownership and management. Such services have been recorded as wholesale revenue and totaled \$1,639,595 in 1998 and \$47,400 in 1997.

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## **EXHIBIT 2**

**CFW**

Communications Company



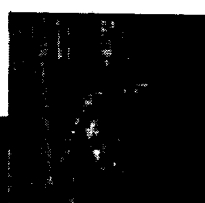
More Ways To Bring **MORE** People Together.

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1998 Annual Report



# bringing people together in more ways



## TELEPHONE

The foundation of the Company's century-long communications services, CFW's local and long distance telephone services are offered through a state of the art digital switching system and extensive fiber optic network.

## WIRELESS

CFW markets an array of wireless communications services including 100% digital PCS, cellular and paging services. Its digital PCS network extends through central and western Virginia and parts of West Virginia and is marketed under the brand name Intelos.

## INTERNET

CFW offers local connections to the internet, as well as e-mail and consulting services. Dial-up services are complemented with high-speed data alternatives that include wireless cable modems and DSL solutions.

## NETWORK

CFW's extensive fiber optic network provides for the economical transfer and delivery of communications traffic from internet and long distance to wireless services. It provides an alternative route for other carriers and is also used by CFW to deliver CLEC service to businesses.

## VIDEO

CFW delivers cable television services to viewers, including packages with local or regional affiliates, pay-per-view and additional special services, cable networks, and access to premium providers including HBO and Cinemax.

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# financial highlights

<i>(In thousands, except for per share amounts)</i>	1998	1997	Amount of Inc. (Dec.)	Percent Inc. (Dec.)
Operating Revenues	\$ 66,686	\$ 59,010	\$ 7,676	13.0%
Operating Expenses	44,060	39,598	4,462	11.3%
Operating Cash Flows <sup>(a)</sup>	33,130	28,608	4,522	15.8%
Operating Income	22,627	19,412	3,215	16.6%
Net Income <sup>(b)</sup>	8,508	12,221	(3,713)	(30.4%)
Net Income Per Share – Diluted <sup>(b)</sup>	0.65	0.94	(0.29)	(30.9%)
Cash Dividends Per Share	0.435	0.412	0.023	5.6%
Investment In Property & Equipment	\$153,621	\$137,703	\$15,918	11.6%
Average Number of Common Shares Outstanding – Diluted	13,094	13,056	38	0.3%

<sup>(a)</sup> Operating Income before depreciation and amortization. See Management's Discussion & Analysis for additional factors to consider in using this measure.

<sup>(b)</sup> Excluding gain on sale of investment, loss on write-down of investment and equity loss from PCS investees, net income was \$13.1 million (\$1.00 per common share – diluted) and \$11.3 million (\$0.86 per common share – diluted) for 1998 and 1997, respectively. This represents an increase of \$1.8 million or \$0.14 per common share – diluted.

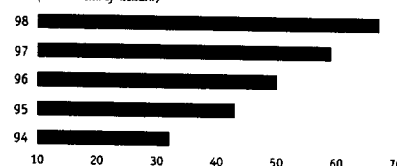
CFW Communications Company is the Integrated Communications Provider (ICP) of choice for business and residential customers throughout central and western Virginia and West Virginia. Offering a diversified range of integrated telecommunications solutions and renowned customer service, CFW is a prime source for serving any customer's communications requirements for voice, data and video. CFW finds more ways to bring more people together than any other communications company in the region.

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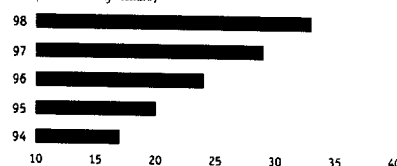
Serving as Virginia's premier telecommunications company for more than a century, CFW is the largest independent telephone company headquartered in the Commonwealth and the 40th largest in the nation. Traded on the NASDAQ exchange (symbol: CFWC), the company has approximately 13 million shares outstanding and 3,000 shareholders.

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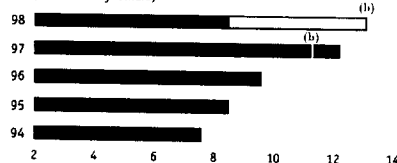
Operating Revenues  
(in millions of dollars)



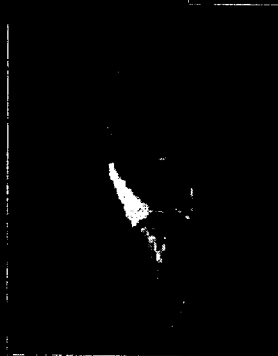
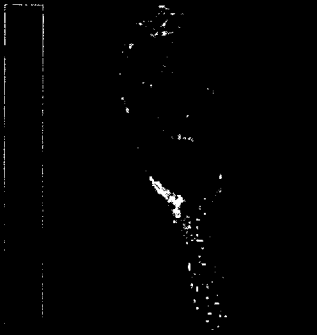
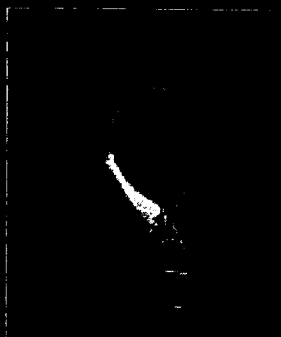
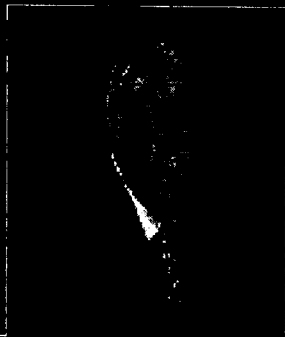
Operating Cash Flows <sup>(a)</sup>  
(in millions of dollars)



Net Income  
(in millions of dollars)







# Letter to Shareholders

Nationally the telecommunications industry is in a state of unprecedented change — mergers and acquisitions have become commonplace, competition is emerging and new players are rapidly entering the market. Companies are endeavoring to become integrated communications providers and attempting to bundle local, wireless, internet access and long distance services.

Our long-term shareholders and the rural communities we serve know that we have shared this vision of integrated services for quite some time. And more importantly, we have been executing a strategy to achieve it.

Today, we have the networks and infrastructure in place to offer digital PCS, internet access, local telephone and long distance service in a rapidly expanding operating region. We also remain focused on continuing our reputation as a quality service provider, having recently opened a new state of the art customer contact center. And, through nineteen integrated retail store and kiosk locations and an expanded business sales team, we offer a host of residential and business communications solutions.

## FINANCIAL RESULTS

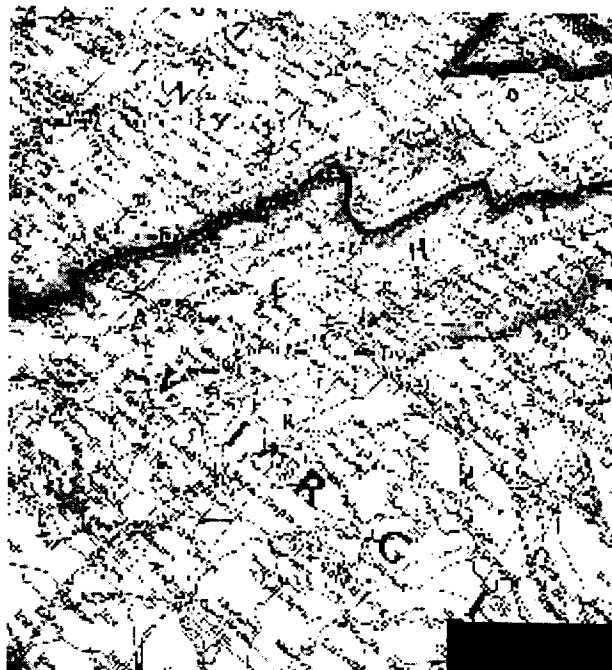
Operating revenues were \$66.7 million in 1998, an increase of 13% over the previous year. Operating cash flows were \$33.1 million, an increase of 16% over 1997. Operating income was \$22.6 million, a 17% increase over last year. Net income for 1998 was \$8.5 million, or \$0.65 per share-diluted.

These record results reflect strong contributions from our telephone, directory assistance, cellular and paging operations. Highlights from these core services include cellular and paging customer growth of 30% from the prior year, as our combined cellular and paging customers reached 38,400, and growth in telephone access minutes and lines of 10.5% and 3.3%, respectively, from the prior year as access lines topped 36,700. Partially offsetting these results were start-up costs associated with our introduction in the second half of 1998 of competitive local telephone services in Charlottesville, Harrisonburg and Staunton, Virginia; introduction of DSL service, an advanced new high-speed internet product in Waynesboro, Virginia; and the launch of internet and long distance services in Lynchburg and Winchester, Virginia, and Charleston and Huntington, West Virginia.

In addition, we recognized \$6.5 million, before-tax, of equity losses reflecting our share of the operating losses associated with our investments in PCS alliances and \$1.0 million of loss, before-tax, from the write-down of our investment in American Telecasting, Inc.

## 1998 ACCOMPLISHMENTS & STRATEGIC INITIATIVES

In 1998 we established Intelos as the leading digital PCS service provider in central and western Virginia as we closed out the year with a penetration rate of over one percent of the covered population in this region. In late 1998, we also launched digital PCS services in the Charleston and Huntington, West Virginia markets. And our PCS expansion plans don't stop there, as we have also started construction of a PCS network to serve the communities of Clarksburg, Fairmont and Morgantown, West Virginia, and expect to commercially offer digital PCS service in these new markets in the second quarter of 1999. With national roaming agreements in place with carriers such as Sprint PCS, our customers can look forward to the benefits of digital PCS, and, through the use of a dual mode handset, analog cellular or digital PCS, nationwide.



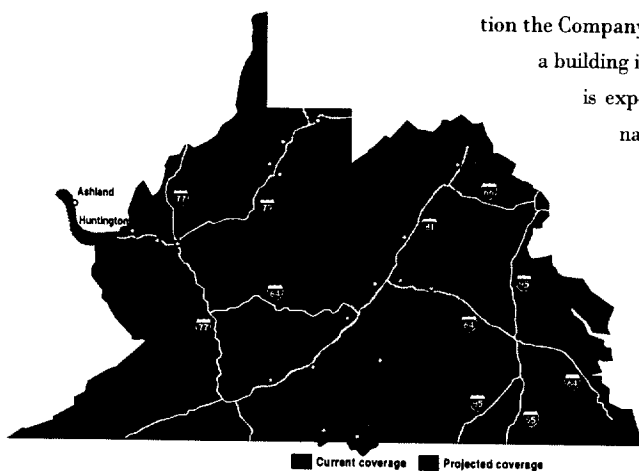
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Complementing our PCS service in each of these markets has been our internet access service. In the fourth quarter of 1998 we followed our PCS offering in Lynchburg and Winchester, Virginia, and Charleston and Huntington, West Virginia, with internet access and long distance services. We now offer internet access in ten markets and nearly doubled our customer count from a year ago. Yet we are quick to realize that the internet customer of today is continually looking for higher speed access to the internet. To address this demand, in November 1998 we introduced an advanced new data service called DSL in Waynesboro and have plans to deploy this exciting new technology in seven additional markets by the end of 1999. We will also be testing high-speed two-way wireless internet service in Charlottesville and the Shenandoah Valley with plans to introduce this attractive high-speed alternative by the end of 1999.

In 1998 we commenced offering competitive local telephone service, or CLEC, to businesses in the neighboring communities of Charlottesville, Harrisonburg and Staunton, Virginia – a significant accomplishment considering the complexity involved in interconnecting with the three largest local telephone companies in Virginia. With these interconnections, and our back-office support in place, we plan to expand this service offering to businesses in these and other communities during 1999.

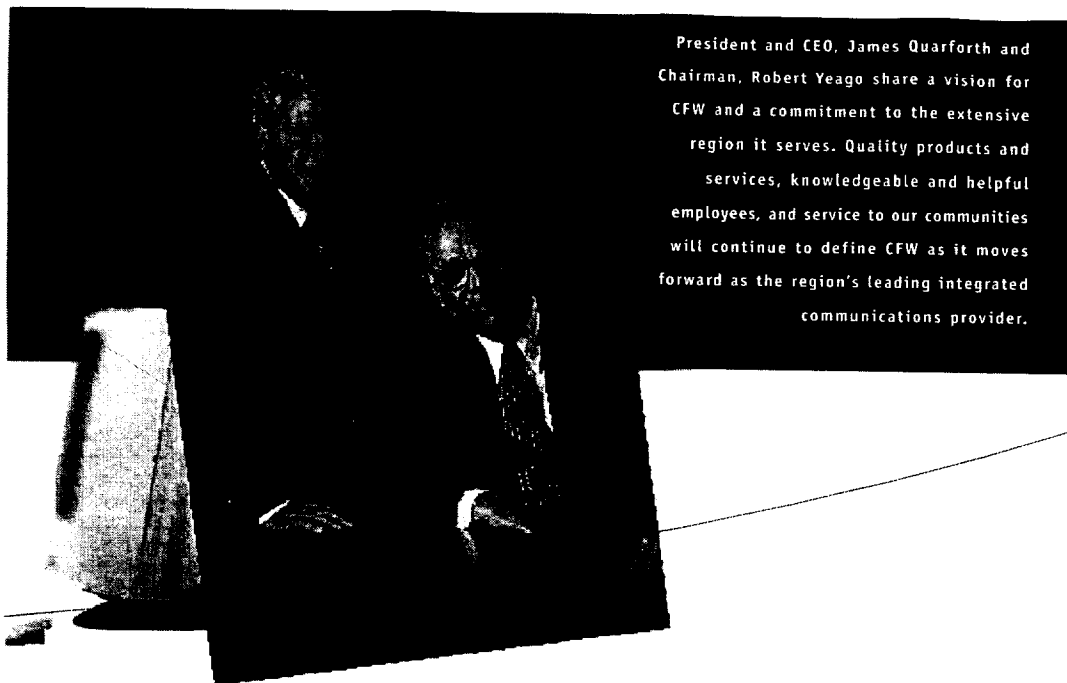
While reselling local loops works for the business sector, we are looking to provide local service to residential customers by wireless local loop using the PCS spectrum. And with the Intelos PCS network in place, we have the ability to redefine the local calling area by expanding our markets' current limited local calling areas. In early 1999 we will begin to trial this service in selected markets and anticipate a commercial launch later in the year.

For our directory assistance operations, the year 1998 was a year for integrating the rapid growth we experienced during 1997. Our directory assistance workforce has done an outstanding job in learning three new states introduced in 1997 and has also taken on the challenge of providing national directory assistance services for a new national directory assistance customer added during 1998. Our two existing call centers are at near-capacity and, to position the Company for future growth opportunities, we have commenced the renovation of a building in Winchester, Virginia that will house our third call center. This new center is expected to begin operations in May 1999, and when coupled with the new national directory assistance database located in Waynesboro, Virginia we will be prepared to aggressively pursue additional directory assistance business.



All of the aforementioned services have stimulated additional demand and usage of our 450 miles of fiber optic network. And with continued growth expected from each of these service offerings, coupled with our opening of new markets in Virginia and West Virginia, through a joint fiber build we plan to acquire 500 additional miles of fiber to connect the balance of our cities in Virginia during 1999 and plan to build or acquire access to a fiber network in West Virginia in 2000.

A key enabler in our expansion has been the investment in back-office services that allows us to provide integrated billing and outstanding customer care. We recently opened a new integrated customer contact center located in Waynesboro, Virginia that will enable us to rapidly move toward a single point of contact for all services to simplify the service experience for



President and CEO, James Quarforth and Chairman, Robert Yeago share a vision for CFW and a commitment to the extensive region it serves. Quality products and services, knowledgeable and helpful employees, and service to our communities will continue to define CFW as it moves forward as the region's leading integrated communications provider.

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our customers. We operate a total of nineteen retail stores and kiosks and have expanded our business sales force throughout Virginia and West Virginia. These locations offer a single source for voice and data communications products and services, thereby providing as much convenience and accessibility to our customers as possible. In 1999, CFW will bring wireless data services to the Intelos PCS customer base allowing for circuit switched data from a PC or facsimile machine connected through a PCS phone. Later in 1999 and 2000, wireless data services will be enhanced to afford direct connection to the internet and improved speeds of up to 64 kbps. We are also moving toward electronic commerce and production of a single integrated bill to further enhance customer convenience.

#### OUTLOOK FOR 1999 AND BEYOND

As a mature company with strong cash flow, we have been able to make strategic investment decisions that have allowed us to reposition the Company as a regional ICP. Like most start-up PCS, competitive local exchange carriers (CLEC) or internet access providers, we too are incurring up-front losses associated with deploying these services. We believe this strategy will enable us to create long-term shareholder growth. We also believe that as other telecommunications companies transition into integrated communications providers, our story will be better understood by the investment community and the market values of our businesses will be more accurately reflected in our stock price.

In 1999 and beyond we plan to continue introducing our integrated communications service offerings to communities throughout central and western Virginia and West Virginia. These actions should accelerate our revenue growth in the years ahead; however, the start-up costs will, in the short-term, depress operating margins and earnings. We have the financial strength to absorb the impact from this expansion and unlike most start-up PCS, CLEC or internet providers, we have the financial ability to continue to support our history of paying dividends. We are proud to report that in February, 1999 the Board approved the thirty-fourth consecutive annual dividend increase, raising the annual dividend 5.52% to \$0.459 per share.

Thank you for your continued support.

James S. Quarforth  
President and Chief Executive Officer

Robert S. Yeago, Jr.  
Chairman of the Board



# More Ways

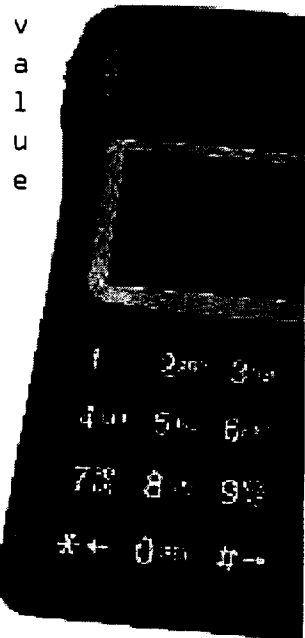
## THE ICP CONCEPT

A world of communications possibilities for its customers—from a single provider. That's CFW's vision. And in the dynamic and fast-paced world of communications, it is quickly becoming a reality. CFW Communications represents the most progressive Integrated Communications Provider (ICP) in its regional service area. Couple the depth of its comprehensive array of communications services with an award-winning commitment to outstanding customer care, and its version of the ICP concept is created.

CFW has served as Virginia's premier communications company for more than 100 years, and its reputation for high-quality, value-added services, and outstanding customer care has never been greater or more widespread. Its integrated solutions encompass traditional telecom offerings as well as wireless communications services, high-speed data delivery, cable television and business and security systems. And, with a heritage richly centered in servicing the needs of an ever increasing customer base, its ability to deliver integrated communications products and services is overshadowed only by its desire to differentiate its proposition with unprecedented customer care. In combination, these elements provide its customers with the power to communicate whenever, wherever, and how-ever they choose. Being an Integrated Communications Provider is a powerful premise that immediately differentiates CFW from other providers in its field.

This is the new age in communications, and people require reliable, comprehensive solutions for keeping in touch. Whether at home or at the office — CFW is proving it has more ways to bring more people together.

Intelos digital PCS is at the forefront of wireless communications, delivering privacy, clarity, and a toll free calling area that can include the state, the region or the country.



## MORE ICP WAYS

CFW's philosophy of "more ways to bring more people together" is especially applicable in today's busy and fast-paced environment. Revolutionary leaps forward in technology and general availability of services have given modern age communications a personalized dimension. In the new age, every family and business can have a unique communications solution. The line between traditional residential and business services is becoming more obscure, the result of improved communications tools and the need to stay in touch with people rather than places. This revolution sets the stage for an ICP that can deliver comprehensive, integrated communications services that are reliable, easily obtainable, and meet the often overlapping needs of both residential and business customers.

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CFW's family of integrated communications services is among the broadest in the industry. From within its own network infrastructure, CFW can provide customized solutions that exactly meet the needs of most residential or business customers in their region. And, while traditional telephone services continue to be available in core markets, CFW has expanded its offering to include digital PCS, local internet access, DSL, voicemail, directory assistance, long distance, paging, cellular, cable television, business telephone systems and security and alarm services. Many of these services cross the boundaries of traditional communications. Digital PCS, for example, may be coupled with text messaging services, like stock quotes or headline news, to create a personal communications device that is as unique to the customer as a fingerprint.

# Full Service

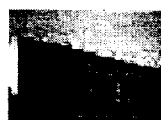
CFW residential customers, such as the David Bull family, enjoy the quality and convenience of multiple communications services. One of the first to enjoy high speed internet access using DSL technology, the Bull's also have local telephone, long distance and wireless services. (Waynesboro, Virginia)

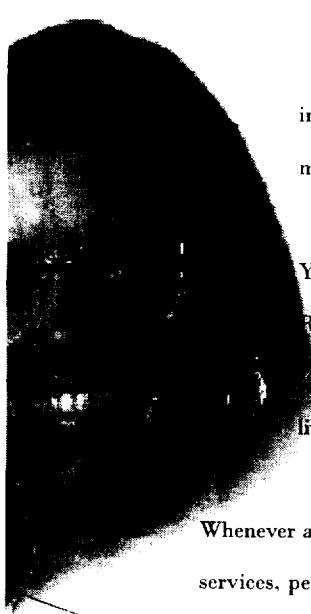
# Integrated Communications

CFW's ICP concept is further played out in nineteen company-owned retail stores and kiosks. These integrated communications shopping centers maintain a visible and striking presence in its markets while offering customers an opportunity to evaluate and sample the latest in communications technology. Professionally trained sales and service representatives are available to provide consulting services, answer questions and demonstrate CFW's complete family of communications services. More importantly, they can personally discuss with each customer how these services can be integrated together to make individual communications more effective. CFW's commitment to personal service is exemplified in its retail facilities, where they still do business by meeting customers person-to-person and creating long-term relationships.

These retail facilities are complemented with business sales professionals that bring communications expertise directly to their business customers. By analyzing and assessing customer needs, CFW is able to craft solutions that maximize customer specific objectives for voice, data and video. Additionally, their representatives provide a single interface for business partners, establishing continuity and mutual respect. CFW realizes that business customers have many choices for communications services. At CFW, the difference is in its people, its personalized service, and the added value of the ICP concept.

But face-to-face is not the only way to reach CFW. Their new customer contact center in Waynesboro, Virginia was built on a century old foundation of deep rooted customer care philosophies. From this state of the art customer care and employee training center, CFW's service representatives receive and respond to customer





inquiries by phone, fax, or e-mail. Universal service representatives are trained on a variety of communications services and provide a single point of contact for its customers.

You might also see CFW employees in their local communities. They could be at soccer practice in Roanoke, Virginia, the Regatta in Charleston, West Virginia or working as volunteers in any local school system. Their employees are well entrenched in serving the communities where they work and live, and CFW is proud to be making a positive influence in local communities across their region.

Whenever and wherever a communications need exists, you can depend on CFW to be there. Through integrated services, personalized customer care, integrated billing, and retail and business representatives, CFW works to create the seamless ICP relationship that its customers will trust now and in the future.

### STRATEGY FOR ICP DEVELOPMENT

During the past year, CFW moved decisively in a direction that transformed the Company into a true regionally based ICP servicing central and western Virginia and West Virginia. By utilizing a robust digital PCS network and growing fiber capacity, CFW has been able to extend multiple-service offerings throughout a much larger regional footprint. In addition, the Company began offering local business dial tone to a broader service area, while also continuing to enhance traditional communications services with new technologies that enhance the value of its ICP concept. For example, CFW introduced DSL service that allows for simultaneous voice and data transmission over traditional copper lines. That means local telephone service customers can maximize their communications services by enjoying direct high-speed internet connections while taking voice calls at home or work without adding a second line.

By first deploying the Intelos digital PCS network in new markets, and then entering as a high-quality provider of competitively priced prepaid and postpaid wireless services, the Company has made it possible for customers to achieve innovative, feature-rich wireless communications while positioning for additional services. The digital PCS

CFW's four strategic services meet the wide variety of voice and data needs of home and business customers. Key services, which may be offered as stand alone or as value-added bundles, include digital PCS, internet access and local and long distance telephone services.


# Strategic Services








# Convenience



George Davis, an independent stockbroker, is one of seven representatives of Ficon Insurance Agency who utilizes digital PCS from Intelos. "The long distance savings is just incredible – we never use our office phones to make calls outside of the area anymore." George takes his phone everywhere he goes and describes it as the "most convenient" wireless service in the region. (Charleston, West Virginia)



relationship becomes the foundation upon which to build a broader integrated services strategy. Internet, local and long distance telephone services follow PCS into expanded regional markets. These services are offered either as stand-alone communications services or as part of integrated multi-service bundles designed to maximize value for customers. Bundling is an important element in the ICP strategy, encouraging customers to seek a single source provider for all of their communications needs, while rewarding them in both savings and convenience. As an added benefit, services in the multi-service packages are presented on a single bill and supported by universal customer care representatives.

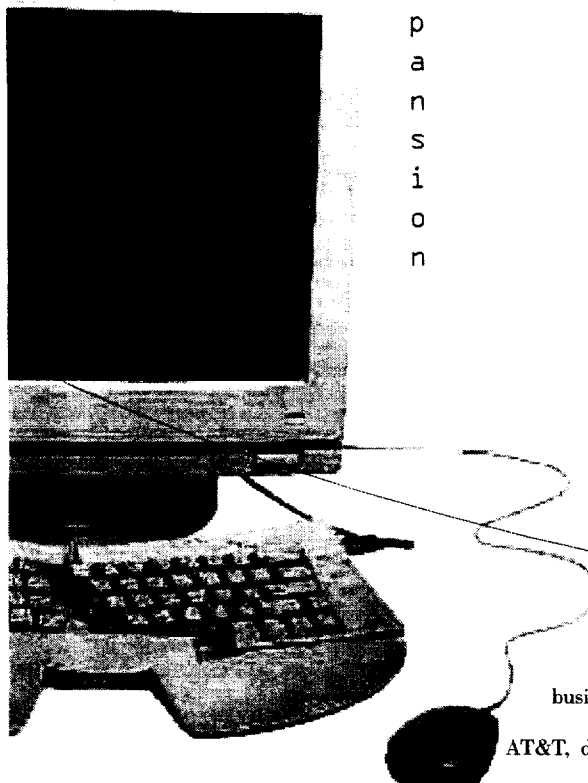
In a communications era of extraordinary evolution, CFW continually searches for opportunities to expand the value of both new and traditional services. Couple this with extraordinary customer care, personalized service, and integrated back-office support, and the ICP concept becomes a powerful proposition.

## A YEAR OF NETWORK GROWTH

During 1998, CFW dramatically expanded the reach of its information services and fiber network. In information services, the Company's directory assistance group gained access to a national directory assistance database, positioning

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it to capture significant portions of calling volumes from other communications carriers. This important enhancement makes it easier for callers to receive directory assistance even if they do not know the area code. In light of the proliferation of area codes across the United States in recent years, the ability to find a number based on the name and state of the person called is a prime benefit. And these services are delivered with the same commitment to outstanding customer service that has been its hallmark for many years.

While much of CFW's directory assistance business is contracted by large carriers, such as AT&T, during 1998 the Company experienced a growing volume of directory assistance calls from wireless customers, adding a new dimension to this already robust business. The Company's two directory assistance centers operated at near-capacity during the year, making a third center an appealing option.

In anticipation of continued demand and expansion of its directory assistance services, CFW began the renovation of the former Taylor Hotel in downtown Winchester, Virginia to serve as its third directory assistance center. This new call center, which will open in the second quarter of 1999, will accommodate up to 250 employees. Part of the ground floor level of the hotel will also serve as a highly visible retail store for the Company's products and services. In total, the project represents CFW's steadfast commitment to the region and to the directory assistance business.

In 1998, CFW significantly expanded its fiber network capabilities through direct connections to the CFN Fiber Network and AEP Communications Fiber Network, resulting in the ability to sell seamless

Well trained, directory assistance operators answer an average of 220,000 calls every business day. Our commitment to accuracy, quality and superior customer care has resulted in continued growth and expansion for CFW directory assistance services.



# Network

voice and data transmission over 10,000 miles of fiber from Pennsylvania to Florida. In addition, CFW continues to partner with other telecommunications companies to grow its fiber network and other facilities for economical wide-area-delivery of services.

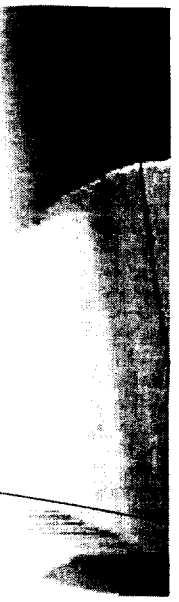
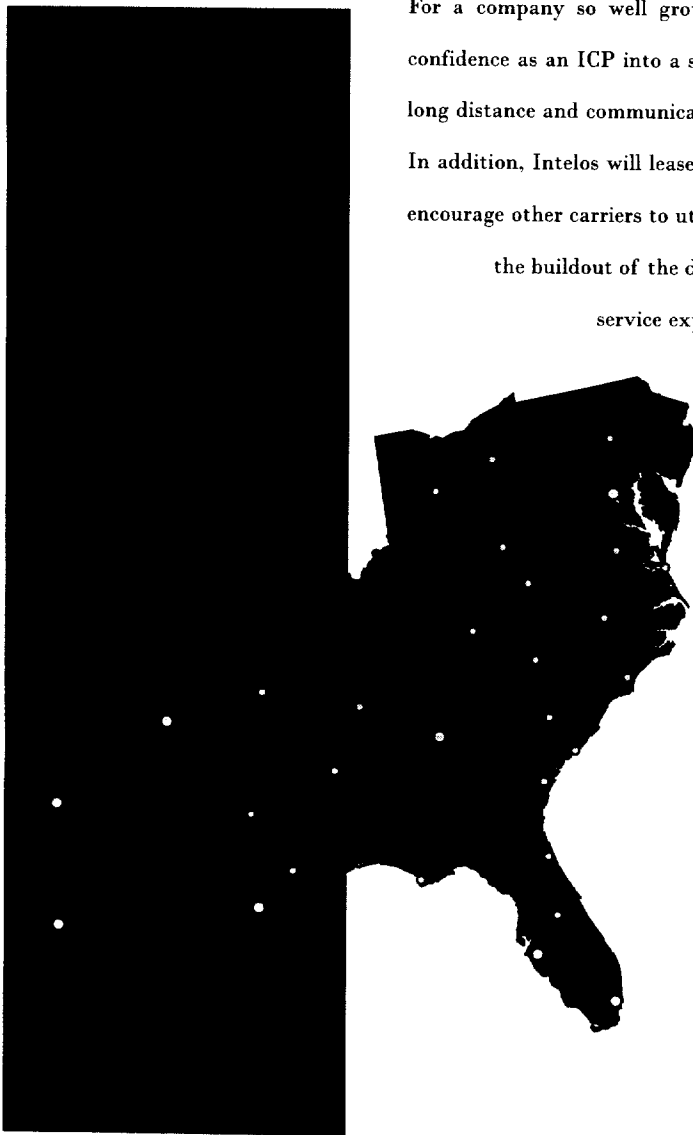
This ability to deliver services to customers by a variety of means provides added flexibility. As CFW expands its service offerings out from the core wireless service, its extensive fiber capacity allows it to economically link together widespread markets.

### A STRATEGY FOR THE FUTURE

For a company so well grounded in the traditions of its past, CFW is moving with confidence as an ICP into a strong future. CFW will continue to carry other service providers' long distance and communications traffic, further increasing its return on investment in facilities. In addition, Intelos will lease portions of its digital PCS network, which will improve return and encourage other carriers to utilize Intelos' network infrastructure. Intelos will aggressively pursue the buildout of the digital PCS network that forms the foundation for its strategy of ICP service expansion.

With this foundation intact, the Company's four strategic services—digital PCS, internet, local and long distance telephone services—will continue to be extended into new and existing PCS markets. Intelos will install the necessary hardware and software to accommodate wireless data services in the first half of 1999 and by early 2000, its digital PCS service will allow direct connections to the internet with improved speeds of up to 64 kbps.

CFW's regional footprint will continue to expand, as it plans to open the northern





Our vision of the integrated communications provider concept is nearly realized. By combining the strengths of our rich heritage, our employees, and our services, we are confident of a bright future that finds more ways to bring more people together.

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## The Future

corridor markets of West Virginia—including Clarksburg, Fairmont and Morgantown—in 1999. A new West Virginia operations center and switch facility will be located in downtown Charleston, further enhancing its position as a regional integrated communications provider.

Certainly, it is foremost that CFW continually look for ways to add value to its relationships with its customers. This CFW will do through ever-enhanced services from a single source, expanded 24-hours by 7-days a week customer care, and a continuation of its corporate policy of involvement in the communities it serves.

There is a link between this company and its communities that spans a century. It will be CFW's strength as it moves forward, and will always be an integral part of its culture. It is also a time of great excitement and opportunity in communications, and CFW is positioned to prevail today, and to drive powerfully into the future. By developing the resources and systems needed to serve its customers over time, and by remaining true to its history and heritage as the premier provider of reliable communications, CFW will continue to find more ways to bring more people together.

D e d i c a t i o n

# Consolidated Balance Sheets

*CFW Communications Company and Subsidiaries*

December 31,	1998	1997
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 42,890	\$ 1,224,347
Accounts receivable, net of allowance of \$0.6 million (\$0.3 million in 1997)	12,120,985	12,204,284
Receivable from affiliates	5,681,978	726,831
Materials and supplies	2,176,895	2,039,345
Prepaid expenses and other	448,775	349,617
Income taxes receivable	691,221	—
	<b>21,162,744</b>	<b>16,544,424</b>
<b>SECURITIES AND INVESTMENTS</b>	<b>11,671,417</b>	<b>16,873,601</b>
<b>PROPERTY AND EQUIPMENT</b>		
Land	1,957,874	1,702,312
Buildings and improvements	19,007,349	14,710,539
Network plant and equipment	93,247,587	87,718,927
Furniture, fixtures, and other equipment	20,022,238	16,187,202
Radio spectrum licenses	15,468,649	15,370,979
Total in service	149,703,697	135,689,959
Under construction	3,916,819	2,013,191
	<b>153,620,516</b>	<b>137,703,150</b>
Less accumulated depreciation	50,760,242	42,032,163
	<b>102,860,274</b>	<b>95,670,987</b>
<b>OTHER ASSETS</b>		
Cost in excess of net assets of business acquired, less accumulated amortization of \$1.4 million (\$1.0 million in 1997)	12,705,900	13,062,856
Deferred charges	533,540	1,120,829
Radio spectrum licenses	6,090,791	5,174,832
	<b>19,330,231</b>	<b>19,358,517</b>
	<b>\$155,024,666</b>	<b>\$148,447,529</b>

*See Notes to Consolidated Financial Statements.*

December 31,	1998	1997
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 7,042,966	\$ 4,169,282
Customers' deposits	400,655	457,343
Advance billings	2,303,696	2,081,491
Accrued payroll	1,283,083	1,459,821
Accrued interest	623,412	815,622
Other accrued liabilities	2,490,386	2,651,719
Deferred revenue	1,221,849	1,329,877
Income taxes payable	—	124,545
	<b>15,366,047</b>	<b>13,089,700</b>
<b>LONG-TERM DEBT</b>		
	<b>19,774,262</b>	<b>24,606,160</b>
<b>LONG-TERM LIABILITIES</b>		
Deferred income taxes	14,243,872	9,242,246
Retirement benefits other than pensions	9,317,424	8,431,688
Other	1,440,157	1,471,543
	<b>25,001,453</b>	<b>19,145,477</b>
<b>MINORITY INTERESTS</b>		
	<b>1,472,419</b>	<b>1,150,690</b>
<b>COMMITMENTS</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, no par value per share, authorized 1,000,000 shares; none issued	—	—
Common stock, no par value per share, authorized 20,000,000 shares; issued 13,016,988 shares (12,986,654 in 1997)	43,527,636	43,420,269
Retained earnings	49,882,849	47,035,233
	<b>93,410,485</b>	<b>90,455,502</b>
	<b>\$155,024,666</b>	<b>\$148,447,529</b>

# Consolidated Statements of Income

CFW Communications Company and Subsidiaries

Years Ended December 31,	1998	1997	1996
<b>OPERATING REVENUES</b>			
Wireline communications	\$37,596,778	\$34,495,331	\$32,479,810
Wireless communications	13,197,732	11,714,012	9,205,028
Directory assistance	12,949,714	10,533,459	6,399,865
Other communications services	2,941,880	2,267,156	1,863,584
	<b>66,686,104</b>	59,009,958	49,948,287
<b>OPERATING EXPENSES</b>			
Maintenance and support	10,837,093	9,659,569	9,528,425
Depreciation and amortization	10,503,338	9,196,237	8,409,662
Customer operations	16,223,183	14,282,592	11,156,489
Corporate operations	6,496,028	6,459,352	5,438,732
	<b>44,059,642</b>	39,597,750	34,533,308
<b>OPERATING INCOME</b>	<b>22,626,462</b>	19,412,208	15,414,979
<b>OTHER INCOME (EXPENSES)</b>			
Other expenses, principally interest	(729,926)	(1,140,020)	(1,273,045)
Interest and dividend income	106,835	284,660	587,393
Equity loss from PCS investees	(6,467,031)	(834,075)	—
Equity income from other wireless investees	197,906	74,115	449,893
Loss on write-down of investment	(1,009,661)	(2,808,145)	—
Gain on sale of investment	—	5,077,379	—
	<b>14,724,585</b>	20,066,122	15,179,220
<b>INCOME TAXES</b>	<b>5,638,940</b>	7,398,495	5,162,497
	<b>9,085,645</b>	12,667,627	10,016,723
<b>MINORITY INTERESTS</b>	<b>(578,005)</b>	(446,695)	(467,017)
<b>NET INCOME</b>	<b>\$ 8,507,640</b>	\$12,220,932	\$ 9,549,706
Net income per common share – basic	\$ 0.65	\$ 0.94	\$ 0.74
Net income per common share – diluted	\$ 0.65	\$ 0.94	\$ 0.73
Average shares outstanding – basic	13,007,880	12,982,289	12,977,920
Average shares outstanding – diluted	13,093,561	13,055,814	13,056,081
<b>Cash dividends per share</b>	<b>\$ 0.435</b>	\$ 0.412	\$ 0.392

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

CFW Communications Company and Subsidiaries

Years Ended December 31,	1998	1997	1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 8,507,640	\$12,220,932	\$ 9,549,706
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	9,730,746	8,559,656	7,916,152
Amortization	772,592	636,581	493,510
Deferred taxes	5,001,626	105,664	1,612,833
Retirement benefits other than pensions	885,736	707,581	574,150
Other	(37,534)	(10,426)	42,812
Equity (gain) loss from wireless investees	6,269,125	759,960	(449,893)
Minority interests, net of distributions	(4,013)	(41,306)	22,231
Distributions received from investments	218,705	99,704	155,141
Gain on sale of investment	—	(5,077,379)	—
Loss on write-down of investment	1,009,661	2,808,145	—
Changes in assets and liabilities from operations:			
Increase (decrease) in accounts receivable	83,299	(3,489,136)	(823,032)
Increase in materials and supplies	(137,550)	(19,509)	(38,999)
Increase (decrease) in income taxes	(815,766)	741,612	(613,711)
Increase in other current assets	(99,158)	(238,786)	(123,789)
Increase (decrease) in accounts payable	2,873,684	823,237	(328,265)
Increase (decrease) in other accrued liabilities	(530,281)	(144,075)	777,693
Increase in other current liabilities	165,517	192,460	571,092
<b>Net cash provided by operating activities</b>	<b>33,894,029</b>	<b>18,634,915</b>	<b>19,337,631</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment	(16,736,272)	(14,196,629)	(15,874,951)
Purchase of PCS licenses	(666,885)	(4,459,818)	(1,355,347)
Investments in PCS alliances	(2,253,995)	(1,492,709)	(4,351,235)
Net advances to PCS alliances	(4,955,147)	—	—
Purchase of investment	(1,004,681)	—	—
Sale of mortgage-backed securities	971,288	540,961	990,125
Maturities and distributions from other investments	(45,239)	10,282	232,377
Purchase of cellular minority interests	—	(1,103,481)	—
Proceeds from the sale of investment	—	6,594,399	—
<b>Net cash used in investing activities</b>	<b>(24,690,931)</b>	<b>(14,106,995)</b>	<b>(20,359,031)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends	(5,660,024)	(5,349,009)	(5,087,255)
Payments on senior notes and notes payable	(3,741,764)	—	—
Payments on lines of credit, net	(1,090,134)	(1,000,000)	4,000,000
Stock redeemed	—	—	(175,313)
Net proceeds from exercise of stock options	107,367	41,829	22,589
<b>Net cash used in financing activities</b>	<b>(10,384,555)</b>	<b>(6,307,180)</b>	<b>(1,239,979)</b>
Decrease in cash and cash equivalents	(1,181,457)	(1,779,260)	(2,261,379)
Cash and cash equivalents:			
Beginning	1,224,347	3,003,607	5,264,986
Ending	\$ 42,890	\$ 1,224,347	\$ 3,003,607

See Notes to Consolidated Financial Statements.



# Consolidated Statements of Shareholders' Equity

CFW Communications Company and Subsidiaries

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<b>Balance, December 31, 1995</b>	12,983,318	\$ 43,531,164	\$ 35,700,859	\$10,009,680	\$ 89,241,703
Comprehensive Income:					
Net income			9,549,706		
Unrealized loss on securities available for sale, net of \$4.8 million of deferred tax benefit				(7,549,504)	
Comprehensive income					2,000,202
Cash dividends			(5,087,255)		(5,087,255)
Stock options exercised, net	6,894	22,589			22,589
Stock redeemed	(10,000)	(175,313)			(175,313)
<b>Balance, December 31, 1996</b>	12,980,212	43,378,440	40,163,310	2,460,176	86,001,926
Comprehensive Income:					
Net income			12,220,932		
Unrealized loss on securities available for sale, net of \$1.6 million of deferred tax benefit				(2,460,176)	
Comprehensive income					9,760,756
Cash dividends			(5,349,009)		(5,349,009)
Stock options exercised, net	6,442	41,829			41,829
<b>Balance, December 31, 1997</b>	12,986,654	43,420,269	47,035,233	—	90,455,502
Comprehensive Income:					
Net income			8,507,640		
Comprehensive income					8,507,640
Cash dividends			(5,660,024)		(5,660,024)
Stock options exercised, net	30,334	107,367			107,367
<b>Balance, December 31, 1998</b>	<b>13,016,988</b>	<b>\$43,527,636</b>	<b>\$49,882,849</b>	<b>\$ —</b>	<b>\$93,410,485</b>

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

*CFW Communications Company and Subsidiaries*

## Note 1. Significant Accounting Policies

CFW Communications Company is a diversified regional communications company that provides a broad range of products and services to businesses, telecommunication carriers and residential customers in Virginia and surrounding states. The Company's services include local telephone, long distance, personal communications services ("PCS"), cellular, paging, wireline and wireless cable television, directory assistance, competitive access, local internet access and alarm monitoring and installation. Significant accounting policies follow:

**ACCOUNTING ESTIMATES:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**PRINCIPLES OF CONSOLIDATION:** The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and those partnerships where the Company, as managing partner, exercises control. All significant intercompany accounts and transactions have been eliminated.

**REVENUE RECOGNITION:** The Company's revenue recognition policy is to recognize revenues when services are rendered or when products are delivered, installed and functional, as applicable. Certain services of the Company require payment in advance of service performance. In such cases, the Company records a service liability at the time of billing and subsequently recognizes revenue over the service period.

**CASH AND CASH EQUIVALENTS:** For purposes of reporting cash flows, the Company considers all highly liquid debt instruments with a purchased maturity of three months or less to be cash equivalents. The Company places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the FDIC insurance limit.

**SECURITIES AND INVESTMENTS:** The Company has investments in debt and equity securities and partnerships. Management determines the appropriate classification of securities at the date of purchase and continually thereafter. The classification of those securities and the related accounting policies are as follows:

**AVAILABLE FOR SALE SECURITIES:** Securities classified as available for sale primarily are traded on a national exchange and are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors including changes in market conditions, liquidity needs and other similar factors. Securities available for sale are stated at fair value and unrealized holding gains and losses, net of the related deferred tax effect, are reported as a separate component of shareholders' equity. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings.

**EQUITY METHOD INVESTMENTS:** These investments consist of partnership and corporate investments where the Company's ownership is 20% or more, except where such investments meet the requirements for consolidation. Under the equity method, the Company's share in earnings or losses of these companies is included in earnings.

**INVESTMENTS CARRIED AT COST:** These are investments in which the Company does not have significant ownership and for which there is no ready market. Information regarding these and all other investments is reviewed continuously for evidence of impairment in value. No impairment was deemed to have occurred at December 31, 1998.

Interest on debt securities is recognized in income as accrued, and dividends on marketable equity securities recognized in income when declared. Realized gains or losses are determined on the basis of specific securities sold and are included in earnings.

**PROPERTY AND EQUIPMENT:** Property and equipment is stated at cost. Accumulated depreciation is charged with the cost of property retired, plus removal cost, less salvage. Depreciation is determined under the remaining life method and straight-line composite rates. Buildings are depreciated over a 50 year life. Network plant and equipment are depreciated over various lives from 3 to 50 years, with an average life of approximately 13 years for the category. Furniture, fixtures and other equipment are depreciated over various lives from 5 to 24 years. Radio spectrum licenses, which are for areas where the licenses are being used in operations, are amortized over a life of 30 years. The Company has other radio spectrum licenses that are included in other assets until such licenses are placed in service. Depreciation provisions were approximately 6.8%, 6.6% and 6.8% of average depreciable assets for the years 1998, 1997 and 1996, respectively.

**MATERIALS AND SUPPLIES:** The Company's materials and supplies inventory consists primarily of items held for resale such as cellular and PCS phones, pagers, cable converter boxes, wireline business phones and accessories, and items used as installation and maintenance supplies. The Company values its inventory at the lower of average cost or market. The market value is determined by reviewing current replacement cost, marketability, and obsolescence. The balance for resale items at December 31, 1998 was \$1.4 million (\$0.8 million in 1997) and the installation and maintenance items \$0.8 million (\$1.2 million in 1997).

**COST IN EXCESS OF NET ASSETS ACQUIRED:** Cost in excess of net assets acquired resulting from acquisitions is being amortized over 30 years using the straight-line method. The Company periodically evaluates the recoverability of intangibles resulting from business acquisitions and assesses whether impairment has occurred. This assessment is derived based on current and future levels of income and cash flow as well as other factors, such as business trends, future prospects and market and economic conditions.

**PENSION BENEFITS:** At December 31, 1998, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 132, Employers' Disclosures about Pensions and Other Post-retirement Benefits. This standard revises the disclosure about pension and other post-retirement benefit plans. Accordingly, the disclosures in these financial statements have been modified to comply with this new standard. The Company sponsors a non-contributory defined benefit pension plan covering all employees who meet eligibility requirements. Pension benefits vest after five years of service and are based on years of service and average final compensation subject to certain reductions if the employee retires before reaching age 62. The Company's funding policy has been to contribute up to the maximum amount allowable by applicable regulations. Contributions are intended to provide not only for benefits based on service to date, but also for those expected to be earned in the future.

The Company also sponsors a contributory defined contribution plan under Internal Revenue Code Section 401(k) for substantially all employees. The Company contributes 60% of each participant's annual contribution for contributions up to 6% of each participant's annual compensation. The employee elects the type of investment fund from the equity, bond and annuity alternatives offered by the plan.

**RETIREMENT BENEFITS OTHER THAN PENSIONS:** The Company provides certain health care benefits for all retired employees that meet eligibility requirements. The

Company's share of the estimated costs of benefits that will be paid after retirement is generally being accrued by charges to expense over the eligible employees' service periods to the dates they are fully eligible for benefits.

**INCOME TAXES:** Deferred income taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

**NET INCOME PER COMMON SHARE:** Basic net income per share was computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted net income per share was computed under the treasury stock method assuming the conversion, as of the beginning of the year, of all dilutive stock options.

The weighted average number of common shares outstanding (diluted), which was used to compute diluted net income per share, was derived by adding weighted average outstanding shares ("Average shares outstanding - basic") to assumed conversion of dilutive stock options (85,681, 73,525 and 78,161 shares for 1998, 1997 and 1996, respectively). The Company has 31,850, 52,450 and 54,450 stock options outstanding in 1998, 1997 and 1996, respectively, which could potentially dilute net income per share in future periods, but which were not included in diluted net income per share for the periods presented since the results were antidilutive. There were no adjustments to net income in the computation of diluted net income per share.

**FAIR VALUE OF FINANCIAL INSTRUMENTS:** The fair values of financial instruments recorded on the balance sheet, except securities and investments, are not significantly different from the carrying amounts. Information as to securities and investments is included elsewhere in Notes 1, 3 and 4. The fair value of off balance sheet guarantees, as described in Note 3, is not determinable due to the nature of the transaction.

**DISCLOSURES REGARDING OPERATING SEGMENTS AND RELATED INFORMATION:** At December 31, 1998, the Company adopted the additional disclosure provisions of FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company has one customer that accounts for greater than 10% of its revenue, primarily consisting of carrier access charges for long distance services, billing and collecting services and directory assistance. The percent of operating revenue from this customer

was 28% in 1998, 34% in 1997, and 24% in 1996. The primary segments receiving revenue from this customer are telephone and directory assistance (Note 2).

**COMPREHENSIVE INCOME:** The Company adopted the additional disclosure provisions of FASB Statement No. 130, Reporting Comprehensive Income, in the first quarter of 1998. This pronouncement results in the Company presenting, in a financial statement, all items required to be recognized under accounting standards as components of comprehensive income. The Company has elected to present this information in the consolidated statements of shareholders' equity.

**START-UP COSTS:** The Accounting Standards Executive Committee issued Statement of Position (SOP) 98-5, Reporting on the Costs of Start-Up Activities, in June 1998. This statement requires the costs of start-up activities, including organization costs, to be expensed as incurred. The statement broadly defines start-up activities as those one-time activities related to opening a new facility, introducing a new product or service, conducting business in a new territory and the like. The statement is effective beginning in 1999, and requires that previously deferred start-up costs be written-off through a cumulative effect charge to earnings when the statement is initially adopted. Adoption of this statement is not expected to have a material impact to the Company's results of operations or the Company's financial position.

**FINANCIAL STATEMENT CLASSIFICATIONS:** Certain amounts on the prior year financial statements have been reclassified, with no effect on net income, to conform with classification adopted in 1998.

## Note 2. Disclosures About Segments of an Enterprise and Related Information

The Company has five primary business segments which have separable management focus and infrastructures and that offer different products and services. These segments are as follows:

**Telephone:** The Company has a 100 year old local telephone business subject to the regulations of the State Corporation Commission of Virginia. This business is the incumbent local exchange carrier (ILEC) for several areas in western Virginia. Principal products offered by this business are local service which includes advanced calling features, network access, long distance toll and directory advertising.

**Network:** The Company directly or indirectly owns 450 miles of fiber optic network and provides transport services for

long distance, internet and private network services. This network is connected and marketed with Carolina's FiberNet throughout the Southeast. Additionally, the network business offers internet and, in 1998, began marketing long distance and competitive local exchange service in certain Virginia markets.

**Wireless:** The Company's wireless business carries cellular and digital phones and services, paging and voicemail and is marketed in the retail, business-to-business and wholesale channels within the Company's cellular territories.

**Directory Assistance:** The Company's directory assistance business provides third party directory assistance for customers of several communications companies and handles approximately 220,000 requests per average business day. Revenues from its largest customer, AT&T, accounted for 94%, 97% and 100% of the segment's total revenues for 1998, 1997, and 1996, respectively.

**Wireless Cable:** The cable business offers a wireless video cable service and has launched a wireless cable high-speed internet service in Charlottesville, Virginia.

Wireless revenues are reported net of cost of sales, primarily for handsets, of \$4.4 million, \$1.7 million and \$1.9 million for the three years ended December 31, 1998. Directory assistance revenues are reported net of database access charges of \$5.0 million, \$4.1 million and \$2.3 million for the three years ended December 31, 1998. Wireless cable revenues are reported net of programming and equipment costs of \$1.7 million, \$1.5 million and \$1.1 million for the three years ended December 31, 1998.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1). The Company evaluates the performance of its operating segments principally on operating revenues and earnings before income taxes, depreciation and amortization (EBITDA). Corporate functions are allocated at cost to the operating segments and all other intercompany transactions are cost based. Segment depreciation and amortization contains an allocation of depreciation and amortization from corporate assets. Corporate depreciation and amortization not allocated to the segments are indicated in the "Other" column in the table following.

Summarized financial information concerning the Company's reportable segments is shown in the following table. The "Other" column includes certain unallocated corporate related items, and results from the Company's alarm, communication services and wireline cable businesses which are not considered separate reportable segments.

<i>(in thousands)</i>	Telephone	Network	Wireless	Directory Assistance	Wireless Cable	Other	Total
<b>1998</b>							
Revenues	\$30,548	\$ 5,440	\$10,231	\$12,950	\$2,966	\$4,551	\$ 66,686
EBITDA	21,715	1,605	4,896	3,018	365	1,531	33,130
Depreciation & Amortization	3,343	1,637	637	1,032	2,724	1,130	10,503
Total Segment Assets	42,521	14,081	7,581	10,942	26,018	14,542	115,685
Corporate Assets							39,340
<b>Total Assets</b>							<b>\$155,025</b>
<b>1997</b>							
Revenues	\$28,828	\$3,997	\$8,602	\$10,533	\$3,112	\$3,938	\$ 59,010
EBITDA	19,708	1,887	4,318	1,627	285	783	28,608
Depreciation & Amortization	3,169	1,071	602	916	2,567	871	9,196
Total Segment Assets	40,523	12,822	6,877	12,593	29,048	14,664	116,527
Corporate Assets							31,921
<b>Total Assets</b>							<b>\$148,448</b>
<b>1996</b>							
Revenues	\$27,388	\$3,592	\$6,819	\$6,400	\$2,385	\$3,364	\$49,948
EBITDA	17,982	2,453	2,875	925	(488)	78	23,825
Depreciation & Amortization	3,887	785	448	670	1,907	713	8,410
Total Segment Assets	38,942	13,252	7,439	9,711	28,952	15,937	114,233
Corporate Assets							28,167
<b>Total Assets</b>							<b>\$142,400</b>

### Note 3. Investments in Wireless Affiliates

At December 31, 1998, the Company had invested \$0.9 million (\$0.8 million at December 31, 1997) for a 21% common ownership interest in Virginia PCS Alliance, L.C. ("VA Alliance"), a provider of PCS serving a 1.6 million populated area in central and western Virginia. The Company is managing network expansion and ongoing operations pursuant to a service agreement. PCS operations began throughout the Virginia region in the fourth quarter of 1997.

At December 31, 1998, the Company had invested approximately \$6.0 million (\$4.2 million at December 31, 1997) for convertible preferred ownership interest in the VA Alliance which is convertible after four years into additional common ownership interest. If converted, the Company would have a 43% ownership interest in the VA Alliance. In December 1996, the VA Alliance also issued \$12.9 million of redeemable preferred ownership interest that can be redeemed by the investor after December 31, 2001. In the event the investor elects to redeem such preferred equity after such date, the Company may elect to fund \$11.4 million of such obligation in exchange for additional common ownership in the VA Alliance. In the event this redemption and funding occurs, and the Company converts its convertible preferred ownership

interest, the Company would have a 65% common ownership interest in the VA Alliance.

The Company has committed to provide \$9.8 million of additional capital to the VA Alliance in three equal annual installments beginning in January 1999. Such additional capital commitments would be reduced by proceeds, if any, from future equity offerings by the VA Alliance.

The Company has a 45% common ownership interest in the West Virginia PCS Alliance, L.C. ("WV Alliance"), a provider of PCS serving a 2.0 million populated area in West Virginia and eastern Kentucky, southwestern Virginia and eastern Ohio. The Company is managing network expansion and ongoing operations pursuant to a service agreement. PCS operations began in Charleston and Huntington, West Virginia in the fourth quarter of 1998.

In August 1997, the Company contributed PCS licenses valued at \$4.5 million and approximately \$1.0 million in cash in exchange for such ownership in the WV Alliance. The Company has committed to provide \$2.5 million of additional capital to the WV Alliance in four equal annual installments beginning in January 1999. Such additional capital commitments would be reduced by proceeds, if any, from future equity offerings by the WV Alliance.

Combined summarized financial information for the VA Alliance and WV Alliance ("Alliances"), both of which are accounted for by the equity method, are as follows:

<i>(in thousands)</i>	1998	1997
Current assets	\$ 4,136	\$ 5,756
Noncurrent assets	131,312	101,560
Current liabilities	22,723	37,549
Noncurrent liabilities	98,380	33,571
Redeemable preferred interest	14,345	12,812
<i>(in thousands)</i>	1998	1997
Net sales	\$ 4,756	\$ 119
Gross profit (loss)	1,528	(197)
Net loss applicable to common owners	(27,518)	(3,952)
Company's share of net loss	(6,467)	(834)

The Company has entered guarantee agreements whereby the Company is committed to provide guarantees of up to \$50.5 million of the Alliances' debt and redeemable preferred obligations. Such guarantees become effective as obligations are incurred by the Alliances. At December 31, 1998, the Company has guaranteed \$34.6 million of the Alliances' obligations.

In its managing member role, the Company provides certain corporate services for the Alliances, including executive, finance, accounting, information management, human resources, and other general and administrative services (collectively, "corporate services"). The Company charged the Alliances \$1.9 million in 1998 and \$0.5 million in 1997 for these corporate services.

In connection with providing corporate services, the Company processes and pays the Alliances' capital and general operating expenses and is subsequently reimbursed. The outstanding advances at December 31, 1998 totalled \$5.6 million (\$0.7 million at December 31, 1997).

Retained earnings of the Company at December 31, 1998, include accumulated losses of \$4.5 million related to these Alliances.

In April 1997, the Company sold its 30% limited interest in the Roanoke MSA Cellular Partnership to GTE Wireless ("GTE") for approximately \$6.6 million and recognized a gain on the sale of approximately \$5.1 million. The Company recognized equity income from the Roanoke MSA Cellular Partnership of approximately \$16,000 and \$374,000 in 1997 and 1996, respectively. In addition, in April 1997, the Company purchased from GTE an 8.4% interest in the Virginia RSA 6 Cellular Partnership for approximately \$1.1 million. At December 31, 1998, the Company had an 84% ownership interest in the Virginia RSA 6 Cellular Partnership.

#### Note 4. Securities and Investments

Investments consist of the following as of December 31:

	Type of Ownership	Carrying Values	
		1998	1997
<b>Available for Sale</b>			
American Telecasting, Inc.	Equity Securities	\$ 275,362	\$ 1,285,022
Mortgage-backed securities	Debt Securities	—	971,288
		<b>275,362</b>	<b>2,256,310</b>
<b>Equity Method</b>			
Virginia PCS Alliance, L.C.	Equity and Convertible Preferred Interests	<b>1,404,879</b>	4,504,770
West Virginia PCS Alliance, L.C.	Equity Interest	<b>4,661,583</b>	5,774,728
Virginia Telecommunications Partnership	General Partnership Interest	<b>325,684</b>	380,394
Virginia Independent Telephone Alliance	Limited Partnership Interest	<b>489,628</b>	445,050
Other	Partnership Interests	<b>518,605</b>	527,733
		<b>7,400,379</b>	<b>11,632,675</b>
<b>Cost Method</b>			
Illuminet Holdings, Inc.	Equity and Convertible Debt Securities	<b>1,778,787</b>	1,771,765
Multimedia Medical Systems, Inc.	Equity Securities	<b>1,052,650</b>	1,052,650
Listing Services Solutions, Inc.	Equity Securities	<b>1,004,681</b>	—
Other	Equity Securities	<b>159,558</b>	160,201
		<b>3,995,676</b>	<b>2,984,616</b>
		<b>\$11,671,417</b>	<b>\$16,873,601</b>

The Company recognized a \$1.0 million and \$2.8 million impairment loss for the years ended December 31, 1998 and 1997, respectively, on its investment in American Telecasting, Inc. (ATEL) which resulted in a carrying value in the investment of \$0.3 million at December 31, 1998.

Changes in the unrealized gain (loss) on available for sale securities during the years ended December 31, 1998 and 1997, reported as a separate component of shareholders' equity and making up the entire amount of accumulated other comprehensive income are as follows:

	1998	1997
Unrealized gain, beginning balance	\$ —	\$4,026,475
Unrealized holding gains (losses) during the year	—	(4,026,475)
Unrealized gain, ending balance	\$ —	\$ —

## Note 5. Long-Term Debt and Lines of Credit

Long-term debt and lines of credit consist of the following as of December 31:

	1998	1997
7.26% Unsecured senior notes due in annual installments from 1999 to 2007	<b>\$16,363,636</b>	\$20,000,000
6.25% Notes payable secured by certain PCS radio spectrum licenses due from 1999 to 2006	<b>1,500,760</b>	1,606,160
Borrowings under lines of credit	<b>1,909,866</b>	3,000,000
	<b>\$19,774,262</b>	<b>\$24,606,160</b>

The unsecured senior note agreement contains various restrictive covenants including restrictions relating to additional debt issuance, fixed charges, net worth and payment of dividends. Approximately \$12.5 million of retained earnings were available for the payment of dividends at December 31, 1998.

The Company paid \$3.6 million of principal on the unsecured senior notes in January 1999 with proceeds from borrowings under the Company's lines of credit. The Company has classified this payment amount and borrowings under its notes payable and lines of credit as long-term, since the Company has the ability and the intent to refinance these borrowings with an existing line of credit that has a maturity of beyond one year. The Company has available lines of credit aggregating \$24.0 million at December 31, 1998. The blended interest rates on the borrowings under lines of credit as of December 31, 1998, 1997 and 1996 was 5.2%, 5.9% and 5.9%, respectively.

Interest expense was \$716,000, \$888,000, and \$1,325,000 for 1998, 1997, and 1996, respectively. Maturities of long-term debt for each of the next five years are 1999 - \$0, 2000 - \$7,592,000; 2001 - \$1,982,000; and 2002 - \$1,993,000; and 2003 - \$2,004,000.

## Note 6. Shareholder Rights Plan

In 1990, the Company adopted a ten-year shareholder rights plan that provides a right to common shareholders to acquire a unit of preferred stock of the Company at a purchase price of \$130. The right is exercisable only upon the occurrence of certain events. If a third party acquires 20% or more of the Company's common stock, without prior approval of the Board of Directors, other shareholders are entitled to receive, upon exercise of the right and payment of the purchase price, common stock or preferred stock at the option of the Company having a value equal to twice the amount of the purchase price.

## Note 7. Income Taxes

The components of income tax expense are as follows for the years ended December 31:

	1998	1997	1996
Current tax expense:			
Federal tax expense	\$ 690,507	\$6,165,040	\$3,159,133
State tax expense (benefit)	(53,193)	1,127,791	390,531
	637,314	7,292,831	3,549,664
Deferred tax expense			
Federal tax expense	4,500,178	95,070	1,482,070
State tax expense	501,448	10,594	165,145
Investment tax credits amortized	—	—	(34,382)
	5,001,626	105,664	1,612,833
	<b>\$5,638,940</b>	<b>\$7,398,495</b>	<b>\$5,162,497</b>

Total income tax expense was different than an amount computed by applying the graduated statutory federal income tax rates to income before taxes. The reasons for the differences are as follows for the years ended December 31:

	1998	1997	1996
Computed tax at statutory rate	\$4,851,302	\$6,766,799	\$5,049,271
Investment tax credits amortization	—	—	(34,382)
State income taxes, net of federal income tax benefit	560,204	751,334	366,746
Other – net	227,434	(119,638)	(219,138)
	<b>\$5,638,940</b>	<b>\$7,398,495</b>	<b>\$5,162,497</b>

Net deferred income tax assets and liabilities consist of the following components at December 31:

	1998	1997
Deferred income tax assets:		
Retirement benefits other than pension	\$ 3,334,042	\$ 3,106,609
Net operating loss of acquired company	1,074,000	1,074,000
Net operating loss	542,143	—
Alternative minimum tax credit carryforwards	568,405	—
Accrued expenses	268,577	—
Other	447,183	339,672
	6,234,350	4,520,281
Deferred income tax liabilities:		
Investments, net	5,722,200	33,454
Property and equipment	14,756,022	13,689,777
Other	—	39,296
	20,478,222	13,762,527
Net deferred income tax liabilities	<b>\$14,243,872</b>	<b>\$ 9,242,246</b>



## Note 8. Pension Plans and Other Postretirement Benefits

The Company sponsors several qualified and nonqualified pension plans and other postretirement benefit plans for its employees. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 1998, and a statement of the funded status as of December 31 of each year:

	Defined Benefit Pension Plan		Other Postretirement Benefit Plan	
	1998	1997	1998	1997
<b>Change in benefit obligations:</b>				
Benefit obligations, beginning	\$16,655,591	\$15,646,558	\$ 7,134,616	\$ 6,622,727
Service cost	617,099	486,925	202,347	177,187
Interest cost	1,212,044	1,175,197	525,784	503,626
Amendment	-	(249,319)	-	-
Actuarial (gain) loss	1,767,159	479,493	671,957	(11,549)
Benefits paid	(878,231)	(883,263)	(117,632)	(157,375)
Benefit obligations, ending	\$19,373,662	\$16,655,591	\$ 8,417,072	\$ 7,134,616
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning	\$17,791,099	\$16,279,589	\$ -	\$ -
Actual return on plan assets	2,206,080	2,394,773	-	-
Employer contribution	-	-	117,632	157,375
Benefits paid	(878,231)	(883,263)	(117,632)	(157,375)
Fair value plan assets, ending	\$19,118,948	\$17,791,099	\$ -	\$ -
<b>Funded status:</b>				
Funded status, beginning	\$ (254,714)	\$ 1,135,508	\$(8,417,072)	\$(7,134,616)
Unrecognized net actuarial gain	(861,171)	(2,178,484)	(170,039)	(851,378)
Unrecognized prior service cost	533,334	565,873	-	-
Unrecognized transition obligations	47,341	63,122	-	-
Accrued benefit cost	\$ (535,210)	\$ (413,981)	\$(8,587,111)	\$(7,985,994)

The Company's matching contributions to the defined contribution plan were \$406,000, \$337,000, and \$246,000 for the years ended December 31, 1998, 1997, and 1996.

The accumulated benefit obligation of the Company's nonqualified pension plan was approximately \$730,000, \$446,000 and \$249,000 at December 31, 1998, 1997, and 1996, respectively, and has been classified with retirement benefits other than pensions. All of the Company's plans for postretirement benefits other than pensions and the nonqualified pension plan have no plan assets.

The following table provides the components of net periodic benefit cost for the plans:

	Defined Benefit Pension Plan			Other Postretirement Benefit Plan		
	1998	1997	1996	1998	1997	1996
Service cost	\$ 617,099	\$ 486,925	\$ 445,527	\$202,347	\$177,187	\$207,319
Interest cost	1,212,044	1,175,197	1,043,933	525,784	503,626	476,194
Expected return on plan assets	(1,729,609)	(1,579,686)	(1,444,994)	-	-	-
Amortization of transition obligations	15,781	15,781	15,781	-	-	-
Amortization of prior service cost	32,539	45,005	12,529	-	-	-
Recognized net actuarial gain	(26,625)	(15,352)	(13,304)	(9,382)	(12,656)	-
Net periodic benefit cost	\$ 121,229	\$ 127,870	\$ 59,472	\$718,749	\$668,157	\$683,513

The prior-service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The Company has multiple nonpension postretirement benefit plans. The health care plan is contributory, with participants' contributions adjusted annually; the life insurance plans are also contributory. Eligibility for the life insurance plan has been restricted to active pension participants age 50-64 as of January 5, 1994. The accounting for the plans anticipates that the Company will maintain a consistent level of cost sharing for the benefits with the retirees.

The assumptions used in the measurements of the Company's benefit obligations are shown in the following table:

	Defined Benefit Pension Plan			Other Postretirement Benefit Plan		
	1998	1997	1996	1998	1997	1996
Assumptions as of December 31						
Discount rate	<b>7.00%</b>	7.50%	7.75%	<b>7.00%</b>	7.50%	7.75%
Expected return on plan assets	<b>10.00%</b>	10.00%	9.50%	—	—	—
Rate of compensation increase	<b>4.75%</b>	4.75%	4.75%	—	—	—

For measurement purposes, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for the 1998. The rate was assumed to decrease gradually each year to a rate of 5.75% for 2001 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The effect of a 1% change on the total of service and interest cost components of net periodic postretirement health care benefit cost would be \$137,000 for a 1% increase and \$108,000 for a 1% decrease. Additionally, the effect of a 1% change on the health care component of the accumulated postretirement benefit obligations would be \$1,324,000 for a 1% increase and \$1,062,000 for a 1% decrease.

#### Note 9. Stock Plans

The Company's 1997 Stock Compensation Plan (Option Plan), which replaces the Company's 1988 Stock Option Plan, provides for the grant of stock options, stock appreciation rights (SARS), stock awards and performance shares to officers and certain key management employees. A maximum of 950,000 shares of common stock may be issued under the Option Plan by means of the exercise of options or SARS, the grant of stock awards and/or the settlement of performance shares. The Company's Non-Employee Director's Stock Option Plan (Director's Plan) provides a non-employee director the opportunity to receive stock options in lieu of a retainer fee. A maximum of 25,000 shares of common stock may be issued upon the exercise of options granted under the Director's Plan. Stock options must be granted under the Plans at not less than 100% of fair market value at the date of grant and have a maximum life of ten years from the date of grant. Options and other awards under the Plans may be exercised in compliance with such requirements as determined by a committee of the Board of Directors.

A summary of the status of the Stock Option Plans at December 31, 1998, 1997 and 1996 and changes during the years ended on those dates is as follows:

	1998		1997		1996	
	Weighted-Average		Weighted-Average		Weighted-Average	
Options	Shares	Exercise Price	Shares	Exercise Price	Shares	Exercise Price
Outstanding at beginning of year	<b>409,210</b>	<b>\$17.10</b>	325,022	\$15.90	244,606	\$14.99
Granted	<b>115,740</b>	<b>23.02</b>	109,373	20.68	99,800	17.68
Exercised	<b>(45,971)</b>	<b>10.25</b>	(8,915)	10.33	(12,084)	9.79
Forfeited	<b>(10,300)</b>	<b>21.62</b>	(16,270)	20.90	(7,300)	20.12
Outstanding at end of year	<b>468,679</b>	<b>\$19.13</b>	409,210	\$17.10	325,022	\$15.90
Exercisable at end of year	<b>225,631</b>	<b>\$17.12</b>	212,545	\$14.89	177,348	\$13.43
Weighted average fair value per option of options granted during the year	<b>\$6.91</b>		<b>\$6.15</b>		<b>\$4.85</b>	

The following table summarizes information about stock options outstanding at December 31, 1998:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$ 6.50 - 10.00	45,500	1 year	\$ 8.81	45,500	\$ 8.81
\$12.75 - 18.25	140,066	6 years	\$16.75	84,016	\$16.26
\$18.38 - 25.75	283,113	8 years	\$21.91	96,115	\$21.82

Grants of options under the Plans are accounted for following Accounting Principles Board (APB) Opinion No. 25 and related interpretations. Accordingly, no compensation cost has been recorded. The Company has elected to apply the disclosure-only provisions of FASB Statement No. 123. However, had compensation cost been recorded based on the fair value of awards at the grant date, the pro forma impact on the Company's net income and net income per common share - diluted would have been less than \$0.4 million (\$0.03 per share) in 1998 and \$0.2 million (\$0.02 per share) for 1997 and 1996. The pro forma effects of applying FASB Statement No. 123 are not indicative of future amounts since, among other reasons, the requirements of the Statement have been applied only to options granted after December 31, 1994.

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend rate of 1.7% to 2.0% for 1998, 1.9% to 2.3% for 1997, and 2.0% for 1996; risk-free interest rates of 5.0% to 5.7% for 1998, 5.9% to 6.3% for 1997 and 6.4% for 1996; expected lives of 6 years for 1998 and 1997 and 8 years for 1996; and price volatility of 26.0% to 26.3% for 1998, 23.1% to 24.6% for 1997 and 15.8% for 1996.

The Company also has a plan whereby its common stock can be purchased by employees at a price 10% less than the market price on the issue date.

#### Note 10. Supplementary Disclosures Of Cash Flow Information

The following information is presented as supplementary disclosures for the Consolidated Statements of Cash Flows:

	1998	1997	1996
Cash payments for:			
Interest, net of capitalized interest of \$785,854 in 1998, \$762,643 in 1997, and \$322,516 in 1996	\$ 925,609	\$1,067,098	\$1,174,778
Income taxes	\$1,453,080	\$6,551,222	\$4,166,400

In 1997 the Company contributed two PCS radio spectrum licenses valued at \$4.5 million to the WV Alliance in exchange for equity ownership (Note 3). In 1997, the Company acquired through the FCC auction certain PCS radio spectrum licenses for approximately \$1.6 million of notes payable.

#### Note 11. Lease Commitments

The Company has several operating leases for administrative office space, retail space, tower space, channel rights, and equipment. The leases for retail and tower space have initial lease periods of ten to thirty years. These leases are associated with the operation of a cellular business in Virginia Rural Service Area 6 in which the Company is the general partner. The leases for channel rights relate to the Company's wireless cable operations and have initial terms of three to ten years. The equipment leases have an initial term of three years. Rental expense for operating leases was \$2,011,000, \$1,352,000, \$977,000, in 1998, 1997, and 1996, respectively. The total amount committed under these lease agreements is: \$1,000,000 in 1999, \$518,000 in 2000, \$410,000 in 2001, \$331,000 in 2002, \$278,000 in 2003 and \$3,407,000 for the years thereafter.

The Company has commitments for capital expenditures of approximately \$6 million as of December 31, 1998, all of which are expected to be incurred in fiscal 1999.

# Independent Auditor's Report

To the Board of Directors  
CFW Communications Company  
Waynesboro, Virginia

We have audited the accompanying consolidated balance sheets of CFW Communications Company and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CFW Communications Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

Richmond, Virginia  
February 12, 1999

*McGladrey & Pullen, LLP*

# Management's Discussion and Analysis

## OVERVIEW

CFW Communications Company ("CFW" or the "Company") is a diversified communications company providing a broad range of products and services to business and residential customers primarily in Virginia and West Virginia. These communications products and services include local telephone, long distance, cellular, personal communications service (PCS), paging, wireless and wireline cable television, directory assistance, competitive access, local internet access, and alarm monitoring and installation.

The Company's strategy is to be a regional full-service provider of communications products and services to customers within an expanding service area. The Company has implemented this strategy through acquisitions, investments in spectrum licenses and internal growth through capital investment. In addition, the Company has leveraged its existing switching platform and fiber optic network by introducing new services such as long distance directory assistance, long distance services to local telephone customers and surrounding communities, cable television, local internet access, and various enhanced services including Call Waiting and Caller Identification. These activities continue to contribute to growth in the Company's operating revenues. In addition to these activities, the Company has commenced offering, in selected markets within Virginia, a competitive local telephone service, high-speed wireless cable and digital subscriber line (DSL) internet services and a wireless local telephone service. Further, the Company will be expanding its operations base and its service offerings in Virginia and West Virginia in 1999.

As a result of the Company's increasing focus on and growth in wireless communications and other competitive communications-related businesses, a larger percentage of the Company's operating revenues and operating cash flows (operating cash flows is defined as operating income before depreciation and amortization) are being generated by businesses other than the mature telephone operations. Accordingly, management believes operating cash flows is a meaningful indicator of the Company's performance. Operating cash flows is commonly used in the wireless communications industry and by financial analysts and others who follow the industry to measure operating performance. Operating cash flows should not be construed as an alternative to operating income or cash flows from operating activities (both as determined in accordance with generally accepted accounting principles) or as a measure of liquidity.

Through the Virginia PCS Alliance, L.C. ("VA Alliance") and West Virginia PCS Alliance, L.C. ("WV Alliance"), and other PCS joint ventures, the Company has acquired radio spectrum licenses for personal communications service ("PCS") for markets with an aggregate population of five million people. These licenses have enabled the Company, as

managing member of both Alliances, to deploy PCS in central and western Virginia and central West Virginia and will enable the Company to provide services in additional markets in Virginia, West Virginia and parts of Maryland, Ohio, Pennsylvania, Kentucky and Tennessee. The VA Alliance completed its first full year of operation in 1998 and the WV Alliance commenced offering PCS in Charleston and Huntington, West Virginia in the fourth quarter of 1998. The Company plans to commence providing PCS in the Clarksburg, Fairmont and Morgantown, West Virginia corridor in the first half of 1999. In 1999, management expects continued growth in revenue, operating cash flows and operating income from its current consolidated operations. However, the Company expects lower operating margins due to start-up costs of newer businesses associated with expansion into new markets and introduction of new service offerings through the region. The Company's recognition of its share of losses associated with its investments in the PCS Alliances is expected to be significant in 1999 as the Company recognizes a full year of operating losses from both the Virginia and West Virginia Alliances. These losses from equity investments are expected to exceed net income growth from consolidated operations and will likely result in consolidated net income levels below amounts reported in recent years. These losses from equity investments are also expected to continue into future years until build-out is completed and a sufficient customer base is established.

The Company wishes to caution readers that these forward-looking statements and any other forward-looking statements made by the Company are based on a number of assumptions, estimates and projections including but not limited to; continuation of economic growth and demand for wireless and wireline communications services; continuation of current level of services for certain material customers; reform initiatives being considered by the FCC being relatively revenue neutral; significant competition in the Company's telephone service area not emerging in 1999; the impact on capital requirements and earnings from new business opportunities and expansion into new markets and anticipated competitive activity not being greater than anticipated; and the achievement of build-out, operational, capital, financing and marketing plans relating to deployment of PCS services. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that any significant deviations from these assumptions could cause actual results to differ materially from those in the above and other forward-looking statements. Forward-looking statements included herein are as of the date hereof and the Company undertakes no obligation to revise or update such statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

## RESULTS OF OPERATIONS

**SUMMARY-** Operating revenues were \$66.7 million in 1998, an increase of 13% over 1997. Operating cash flows were \$33.1 million, an increase of 16% over 1997. Operating income was \$22.6 million in 1998, an increase of 17% over 1997. Strong customer growth in our cellular and paging operations of 28% and 33%, respectively, fueled the growth in our wireless operations. Operating results from our wireline operations reflect continued strong contributions from our telephone operations, led by 3% growth in access lines, 11% growth in access minutes and continued growth in calling features, over 80% increase in internet customers and effective cost control. Results from our directory assistance operations reflect the annualized revenue stream from 1997 contract expansions and operating efficiencies. Start-up costs associated with expansion into new markets and new service offerings reduced the year to year percentage increases.

Net income for 1998 was \$8.5 million, or \$0.65 per share-diluted, which includes a \$1.0 million (\$0.6 million after tax, or \$0.05 per share) loss on the write-down of our investment in American Telecasting, Inc. (ATEL) (see Note 4 to the financial statements) and equity losses from PCS investees of \$6.5 million (\$4.0 million after tax, or \$0.30 per share). Exclusive of these transactions, earnings for 1998 were \$13.1 million, or \$1.00 per share. These earnings results reflect the continued growth from our consolidated operations, particularly directory assistance and cellular.

Net income for 1997 was \$12.2 million, or \$0.94 per share-diluted, including a \$5.1 million gain (\$3.1 million after tax, or \$0.24 per share) on the sale of our investment in the Roanoke MSA Cellular Partnership (see Note 3 to the financial statements, hereinafter referred to as "Note 3"), a \$2.8 million (\$1.7 million after tax, or \$0.13 per share) loss on write-down of our investment in ATEL and a \$0.8 million loss (\$0.5 million after tax, or \$0.04 per share) from the Company's equity share of losses from PCS investees. Exclusive of these transactions, earnings for 1997 were \$11.3 million, or \$0.86 per share. These earnings reflect the growth from our consolidated telephone, cellular and directory assistance operations.

**OPERATING REVENUES -** Total operating revenues were \$66.7 million, an increase of \$7.7 million, or 13% over 1997 (\$9.1 million, or 18%, increase in 1997 over 1996). The increases were primarily attributable to wireline services, cellular, and directory assistance. Wireline revenue in 1998 totaled \$37.6 million, an increase of \$3.1 million, or 9% over 1997 (\$5.1 million, or 16%, over 1996). Wireless revenue in 1998 totaled \$13.2 million, an increase of \$1.5 million, or 13% over 1997 (\$4.0 million, or 43%, over 1996). Directory assistance revenue in 1998 totaled \$12.9 million, an increase of \$2.4 million, or 23% over 1997 (\$6.5 million, or 102%, over 1996).

Wireline communications revenues include telephone revenues, fiber optic network usage, internet access, competitive

local telephone, long distance and wireline cable revenues. Telephone revenues, which include local service, access and toll service, directory advertising and calling feature revenues were \$30.5 million, an increase of \$1.7 million, or 6% over 1997 (\$1.4 million, or 5% increase in 1997 over 1996). These increases were primarily due to growth in access lines of 3% and 4% in 1998 and 1997, respectively, and revenue growth from custom calling features of 19% and 28%, respectively. Revenues from fiber optic network usage, which includes internet services, were \$5.4 million, an increase of \$1.4 million, or 36%, over 1997 (\$0.4 million, or 11% increase in 1997 over 1996) due to expanded network usage and growth of over 80% in our internet customer base. Expanded services in 1998 included competitive local telephone service and long distance which generated \$0.8 million in revenue for 1998. Wireline cable revenues have remained relatively constant from 1996 through 1998, with only a \$0.1 million increase during this two-year period.

Wireless communications include cellular, paging, voice-mail and wireless cable. Revenues for cellular, paging and voicemail totaled \$10.2 million, an increase of \$1.6 million, or 19%, over 1997 (\$1.8 million, or 26%, in 1997 over 1996). Increases result primarily from cellular access, toll, and roaming associated with 28% customer growth over 1997 (33% in 1997 over 1996) and increased outside roaming traffic. Wireless cable revenues of \$3.0 million decreased 5% from 1997 but increased 24% compared to 1996. The decline in 1998 revenue is due to limiting marketing efforts and installations to multiple-dwelling units in an effort to contain costs and capital in this business section. This revenue stream pertains primarily to video services. The Company realized less than \$0.1 million of revenues from the high-speed wireless internet, introduced in one geographic market in 1998.

Directory assistance revenues, which includes net revenues from providing directory listings for customers seeking telephone numbers in the mid-Atlantic states, were \$12.9 million, an increase of \$2.4 million, or 23% over 1997 (\$4.1 million, or 65% increase, in 1997 over 1996). During the first half of 1997, the Company commenced directory assistance services to AT&T customers seeking telephone numbers in New Jersey and Delaware. During August through October 1997, the Company expanded this service to encompass Pennsylvania. These expansions, which only had a partial year impact in the prior year, produced an additional 12.6 million of call volume in 1998 over 1997.

Other communications revenues, which include revenues from the Company's sale and lease of communications equipment and security alarm monitoring and installation, and rental for property and equipment primarily to the PCS Alliances were \$2.9 million, an increase of \$0.7 million, or 30% over 1997 (\$0.4 million, or 22% in 1997 over 1996) due primarily to services provided to the Alliances.

**OPERATING EXPENSES** - Total operating expenses were \$44.0 million, an increase of \$4.5 million, or 11% over 1997 (\$5.1 million, or 15%, increase in 1997 over 1996). The introduction of competitive local telephone services and long distance and the resulting start-up related costs, coupled with the growth of internet and the related commitment towards that infrastructure, accounted for \$2.0 million of the 1998 increase. Additionally, costs associated with increased directory assistance calling volume accounted for \$1.1 million of the 1998 increase due to the annualized revenue from 1997 contract expansions and commencement of national directory assistance services. Finally, growth in cellular customers contributed an additional \$1.1 million in operating expenses in 1998 over 1997. The increase in 1997 over 1996 was primarily attributable to directory assistance contract expansions (\$3.9 million) and growth in cellular and wireless cable customers (\$1.5 million). These increases in 1998 over 1997 trailed total revenue growth resulting in a 2% margin improvement indicating a leveraging of fixed costs and a continued focus on cost containment and operating efficiencies.

Maintenance and support expenses, which include costs related to specific property and equipment, as well as indirect costs such as general engineering and general administration of property and equipment, increased \$1.2 million or 12%, over 1997. This increase was primarily a result of increased costs associated with customer growth and service enhancements for the underlying network and support systems. Maintenance and support expenses for 1997 increased \$0.1 million, or 1%, over 1996 which was a result of the Company controlling expenses by acquiring access and other network pricing decreases coupled with more efficient utilization of our facilities and equipment infrastructure.

Depreciation and amortization expenses in 1998 increased \$1.3 million, or 14% over 1997 and \$0.8 million, or 9% in 1997 over 1996. The increase in 1998 and 1997 was a result of capital outlays to support continued business expansion primarily in our wireless operations and directory assistance.

Customer operations expenses, which included marketing, product management, product advertising, sales, publication of a regional telephone directory, customer services and directory services, increased \$1.9 million, or 14% over 1997 and \$3.1 million, or 28%, in 1997 over 1996. Approximately \$1.0 million of these 1998 increases relate to the directory assistance business that added personnel throughout 1997 to handle the calling volume from new contracts. The fact that personnel hired to support this expansion were in place for a partial year in 1997 but the full year of 1998 caused year over year expense growth. Additionally, the Company has invested resources in customer service related functions and sales and marketing related costs in order to support our growth businesses and expansion plans, a significant portion (\$0.9 million) of which relates to competitive telephone service, long distance, internet and communications systems sales and support. The 1997 increase over 1996 was primarily attributable to the directory assistance expansion during 1997.

Corporate operations expenses, which include taxes other than income, executive, accounting, legal, purchasing, information management, human resources and other general and administrative expenses, remained constant in 1998 and increased \$1.0 million, or 19% in 1997 over 1996. The increase in 1997 relates primarily to internal infrastructure growth necessary to support the overall growth of the Company.

**OTHER INCOME (EXPENSES)** - Other income (expenses) which includes interest expense, dividend and interest income, equity income from wireless investees, equity loss from PCS investees, gain on sale of investment and loss on write-down of investment, decreased \$8.6 million from 1997 but increased \$0.9 million in 1997 over 1996.

Other expenses, principally interest, decreased \$0.4 million, or 36% from 1997 and \$0.1 million, or 10% in 1997 from 1996. The reduction in interest expense in 1998 and 1997 is primarily a result of the liquidation of mortgaged-backed securities used to satisfy cash flow needs in lieu of additional debt, and lower interest rates on line of credit debt facilities offset by an increase in investing activity (see Statement of Cash Flows). The Company capitalized interest on property under construction and the investments in PCS alliances of \$0.8 million in 1998 and in 1997. As a result of the VA Alliance commencing operations during the fourth quarter of 1997 and the commencement of operations of the WV Alliance in mid-year 1998, the Company expects the capitalization of interest costs to be reduced during 1999.

Interest and dividend income was down \$0.2 million, or 62% from 1997 and \$0.3 million, or 52% in 1997 from 1996, due to the liquidation of mortgage-backed securities to support the continued growth in customer base and business expansion.

Equity income from other wireless investees, which includes equity earnings from the Company's cellular partnership interests increased \$0.1 million, or 167% over 1997 and decreased \$0.4 million, or 84% in 1997 from 1996. The decrease in 1997 is principally due to the sale of the Company's 30% limited interest in the Roanoke MSA cellular partnership to GTE in April 1997 (Note 3).

Equity loss from PCS investees totaled \$6.5 million for 1998. The Company has a 21% common ownership interest in the VA Alliance, a provider of PCS serving a 1.6 million populated area in central and western Virginia, that commenced operations in the fourth quarter of 1997. The Company also has a 45% common ownership interest in the WV Alliance, an owner of PCS radio spectrum licenses for most of West Virginia and parts of eastern Kentucky, southwestern Virginia and eastern Ohio. The WV Alliance commenced operations in late 1998. Accordingly, management believes that the Company's share of losses to be recognized in 1999 will increase over 1998 loss levels due to the full year of operations for the WV Alliance.

The Company recognized a \$5.1 million gain on the sale of its 30% limited ownership interest in the Roanoke MSA Cellular Partnership to GTE Wireless in April 1997 (Note 3).

The Company recognized a \$1.0 and \$2.8 million impairment loss on its investment in American Telecasting, Inc. (ATEL) at December 31, 1998 and 1997, respectively. The Company concluded that the decline in value was other than temporary given recent trading prices in the common stock and ATEL's financial condition and continued financial losses.

**INCOME TAXES** - Income taxes decreased \$1.8 million, or 24% from 1997 and increased \$2.2 million, or 43%, in 1997 from 1996. The 1998 decrease was attributable to a number of factors, the most significant of which was the recognition of approximately \$6.5 million in losses sustained by our PCS investees compared to only \$0.8 in 1997. These losses generated an increased tax benefit to the Company of approximately \$2.2 million. Additionally, the Company recognized a one-time increase to tax expense of \$2.0 million related to a gain on an investment sale in 1997 (discussed further below). The 1998 tax reductions were offset by approximately \$1.2 million of income taxes recognized by the \$3.2 million increase in taxable income from operations. The 1997 increase was due to an increase in taxable income from operations, \$2.0 million of taxes from the gain on the sale of the Roanoke MSA cellular partnership, offset partially by a \$1.1 million tax benefit from the write-down of the Company's investment in ATEL. The effective rate was 40%, 38%, and 35% in 1998, 1997 and 1996, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its working capital requirements and capital expenditures from net cash provided from operating activities and borrowings under committed credit facilities. The Company has \$22.1 million in unused aggregate borrowings available under its existing credit facilities.

During 1998, net cash provided by operating activities was \$33.9 million. Principle changes in operating assets and liabilities included a \$0.9 million increase in current assets, excluding cash and receivable from affiliates, and a \$2.3 million increase in current liabilities. Current assets increased in 1998 primarily due to the income tax receivable versus an income tax liability in 1997 and current liabilities increased \$2.3 million due to timing of payments offset by other accrued liabilities reduction of \$0.5 million. The Company's investing activities included the investment of \$16.7 million in property and equipment, \$5.0 million in net advances to PCS Alliances, \$2.3 million investment in PCS Alliances, \$1.0 million investment in Listing Services Solutions, Inc., \$0.7 investment in PCS licenses, and proceeds of \$1.0 from the liquidation of mortgaged-backed securities. Net cash used in financing aggregated \$10.4 million, which includes \$5.7 million used to pay dividends and an aggregate of \$4.8 million of payments on long-term debt.

The Company had firm cash commitments relating to purchases of property and equipment of approximately \$6 million as of December 31, 1998. Capital expenditures for 1999, including these commitments, are expected to increase

significantly over 1998 levels to support expansion of competitive local telephone and internal access services, build-out of 500 miles of fiber optic cable, and the addition of a third directory assistance calling center. Funds required for dividends, capital expenditures, interest and debt principal payments, and partnership contributions are expected to be provided from internal sources and borrowings drawn against available credit facilities. The Company has entered into certain guarantee agreements relating to its investment in the VA Alliance and WV Alliance (Note 3) and expects to increase its guarantee levels and equity contributions in the Alliances to support continued PCS network build-out and expansion. Management anticipates that funds required for additional capital contributions to the VA Alliance and WV Alliance (Note 3) will be provided from increased cash flow resulting from lower estimated tax payments due to the Company recognizing its proportionate share of the tax losses generated by the VA Alliance and WV Alliance, both limited liability companies, cash flows from operations and borrowings under existing lines of credit.

## IMPACT OF YEAR 2000

The year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

The Company has addressed this issue with a plan which is centered around several key components: (1) system inventory, (2) third party confirmation, (3) internal systems review, (4) compliance implementation, (5) testing and (6) contingency planning. Regarding the first component, the Company completed a comprehensive inventory of all its systems (hardware and software) in July 1998. At the same time, formal communication, through a confirmation process, was initiated with all of the Company's significant suppliers and large customers to determine the extent to which the Company's interface systems are vulnerable to those third parties' failure to resolve their own year 2000 issues. The Company has received responses from approximately two-thirds of the confirmations sent and continues to follow-up on non-responses and instances where potential issues were noted. Regarding the third component, the Company has completed a comprehensive review of its computer systems to identify the internal systems that could be impacted by the year 2000 issue. Based on findings from this review, the Company has developed an implementation plan to resolve potential issues and is in the early to middle stages of implementing such a plan. Both the second and third components were further broken down by category of system (network



systems, information technology systems and other supporting systems). Significant focal areas are the Company's network/switching related equipment and the corporate billing, customer provisioning and accounting systems. The final components are testing and contingency planning. Testing, where feasible, spans both the internal systems and systems interface with third parties. Contingency planning is necessary in the event that conversion efforts, customer compliance or any other conditions arise that prevent planned critical application upgrades. The entire year 2000 project has a targeted completion date of June 1, 1999. Completion of this project includes planned testing of each major exposure area to ensure compliance. Although no significant plan changes are anticipated, implementation of any contingency plan, should it be necessary, may affect the project's completion date and cost.

Based on its findings and assessment to date, the Company is or will be performing certain planned telephone switching software upgrades and computer software and system upgrades, which are being performed primarily to better meet the business and growth needs of the Company. The total year 2000 project cost estimates are not expected to be material to the Company's business operations or financial condition. The Company will continue to review and update this estimate over the duration of the project.

As mentioned above, the Company expects its year 2000 program to be completed by June 1, 1999. It should be noted that the Company plans to devote the resources required to resolve any significant year 2000 issues. However, if the planned modifications and upgrades are not made, or are not

completed on a timely basis, and contingency plans were to falter, the year 2000 issue could have a material impact on the operations of the Company. Also, there can be no assurance that the systems of other companies on which the Company's systems rely will be timely converted or that any such failure to convert by another company would not have an adverse effect on the Company's systems or costs of upgrades. The material impact on the operations of the Company could include, but not be limited to, interruption of telecommunications services, interruption, error or failure of the Company's customer care services, including customer billing, and failures of the Company's other information systems and other date-sensitive equipment. Such failures could result in substantial customer claims as well as lost revenue due to service interruption, significant delays in the billing process and increased expense associated with stabilizing operations following such failures.

The costs of the program and estimated completion date are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, compliance by third parties which interact with the Company's systems, the ability to locate and correct all relevant computer codes and similar uncertainties.

## Quarterly Review

<i>(in thousands, except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>1998</b>				
Operating revenues	\$ 16,235	\$ 16,551	\$ 17,156	\$ 16,744
Operating cash flows (a)	8,041	8,199	8,413	8,477
Operating income	5,547	5,712	5,757	5,610
Loss on write-down of investment	(270)	—	(353)	(387)
Equity loss from PCS investees	(896)	(1,346)	(1,547)	(2,678)
Net income	2,450	2,468	2,174	1,416
Net income per share – basic	0.189	0.190	0.167	0.108
Net income per share – diluted	0.187	0.188	0.166	0.109
Stock price range	\$27.00-20.75	\$27.50-22.75	\$24.25-20.00	\$23.38-19.50
Quarterly dividend	\$ 0.10875	\$ 0.10875	\$ 0.10875	\$ 0.10875
<b>1997</b>				
Operating revenues	\$ 13,466	\$ 14,503	\$ 15,157	\$ 15,884
Operating cash flows (a)	6,673	6,838	7,387	7,710
Operating income	4,486	4,607	5,132	5,187
Gain on sale of investment	—	5,077	—	—
Loss on write-down of investment	—	—	—	(2,808)
Equity loss from PCS investees	—	—	(60)	(774)
Net income	2,480	5,905	2,894	942
Net income per share – basic	0.191	0.453	0.223	0.074
Net income per share – diluted	0.190	0.452	0.222	0.072
Stock price range	\$22.25-18.25	\$19.50-16.62	\$22.50-17.50	\$24.75-18.50
Quarterly dividend	\$ 0.103	\$ 0.103	\$ 0.103	\$ 0.103

(a) Operating income before depreciation and amortization. See Management's Discussion and Analysis for additional factors to consider in using this measure.

- Fourth quarter 1997 includes equity loss from investment in PCS Alliances (Note 3), which commenced operations during the fourth quarter, of \$0.8 million (\$0.5 million after-tax or \$0.04 per share). These losses totaled \$6.5 million (\$4.0 million after-tax or \$0.30 per share) for the year ended December 31, 1998 (Note 3).
- Fourth quarter 1997 includes a loss on write-down of the investment in American Telecasting, Inc. (Note 4) of \$2.8 million (\$1.7 million after-tax or \$0.13 per share). Further write-downs of this investment totalled \$1.0 million (\$0.6 million after-tax or \$0.05 per share) for the year ended December 31, 1998.
- Second quarter 1997 includes gain on the sale of investment in the Roanoke MSA Cellular Partnership (Note 3) of \$5.1 million (\$3.1 million after-tax or \$0.24 per share).

## Selected Financial Data and Five Year Growth Comparison

<i>(Dollars in thousands, except per share amounts)</i>	1998	1997	1996	1995	1994
Operating revenues	\$ 66,686	\$ 59,010	\$ 49,948	\$ 43,089	\$ 32,198
Operating expenses	44,060	39,598	34,533	29,667	19,949
Income taxes	5,639	7,399	5,163	5,006	3,550
Gain on sale of investments	—	5,077	—	927	—
Loss on write-down of investment	(1,010)	(2,808)	—	—	—
Net income	8,508	12,221	9,550	8,494	7,563
Earnings per share – diluted	0.65	0.94	0.73	0.66	0.63
Cash dividends per share	0.435	0.412	0.392	0.379	0.368
Total assets	155,025	148,448	142,400	143,251	123,964
Long-term debt	19,774	24,606	24,000	20,000	20,067
Retirement benefits					
other than pensions	9,317	8,432	7,724	7,150	6,514
Investment in property and equipment	\$153,621	\$137,703	\$127,196	\$111,806	\$103,086
Average number of common shares outstanding – diluted	13,093,561	13,055,814	13,056,081	12,933,926	12,016,163
Number of employees	743	567	454	492	232
Number of shareholders	2,998	2,884	2,883	2,889	2,638

## Board of Directors

**C. Phillip Barger**  
Retired Chairman  
E. W. Barger & Company  
T/A Barger Insurance Network

**William Wayt Gibbs, V**  
President  
Comprehensive Computer Consultants

**C. Wilson McNeely, III**  
Chairman  
Eagle Corporation

**John B. Mitchell, Sr.**  
President & Chairman  
Hammond-Mitchell, Inc.

**John N. Neff**  
President and  
Chief Executive Officer  
Nielsen Builders, Inc.

**James S. Quarforth**  
President and  
Chief Executive Officer  
CFW Communications

**Carl A. Rosberg**  
Senior Vice President and  
Chief Operating Officer  
CFW Communications

**Robert S. Yeago, Jr.**  
Chairman of the Board  
CFW Communications

## Executive Officers

**J. William Brownlee**  
Vice President –  
Virginia Operations

**Warren C. Catlett**  
Vice President – Strategy and  
Business Development

**David E. Lowe**  
President –  
West Virginia Operations

**David R. Maccarelli**  
Senior Vice President –  
Engineering and Carrier Services

**Michael B. Moneymaker**  
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Chief Financial Officer,  
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**Don Marie Persing**  
Vice President –  
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**James S. Quarforth**  
President and  
Chief Executive Officer

**Carl A. Rosberg**  
Senior Vice President and  
Chief Operating Officer

**Robert S. Yeago, Jr.**  
Chairman of the Board

**Walter M. Zirkle, III**  
President –  
Virginia Operations

## Annual Meeting

The Board of Directors extends to the shareholders a cordial invitation to attend the Annual Meeting of Shareholders, at the Holiday Inn next to Route 275 and I-81, north of Staunton, Virginia, on Tuesday, April 27, 1999, at 10:00am.

## Corporate Office

401 Spring Lane  
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Waynesboro, Virginia 22980  
540-946-3500

## Web Page

<http://www.cfw.com> or [www.intelos.com](http://www.intelos.com)

## Stock Updates

For updates on CFW stock prices call 800-946-8227, or dial locally 946-5144. CFW is publically traded on The NASDAQ Stock Market under the symbol CFWC.

## Shareholder Services

For shareholder services, including information on the Company's Dividend Reinvestment and Stock Purchase Plan, please call 1-888-221-4239.

All trademarks are the property of their respective owners.

CFW Communications Company  
Post Office Box 1990  
Waynesboro, Virginia 22980  
540-946-3500

## **EXHIBIT 3**

### Biographical Information on James S. Quarforth

Mr. Quarforth received his undergraduate degree from the University of Richmond and his masters degree from James Madison University. He has been the Chairman and CEO of CFW Communications, Inc. for approximately 20 years. He has served on the Board of Directors as Executive Director at Virginia Financial Corporation of Stanton since May 1, 1990 and is a Director and Officer of American Telecasting Incorporated of Colorado Springs, Colorado.